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Okhahlamba Local Municipality
Unaudited Financial Statements
for the year ended 30 June 2014

## General Information

| | |
|---|---|
| **Legal form of entity** | Local Municipality |
| **Municipal demaracation code** | KZN 235 |
| **Capacity** | Low |
| **Nature of business and principal activities** | Service Delivery : Rates and General Services and Waste Management Services<br>Main business operations : Local governance activities, planning and promotion of the integrated development plan, land, economic and environmental development<br>The mandate of the municipality is in terms of section 152 of the Constitution of South Africa |
| Councillors | Mayor - Cllr. DT Sibeko<br>Deputy Mayor - Cllr. SZ Khumalo<br>Speaker - Cllr.G Ndaba<br>Member of the Executive Committee - Cllr. BH Zikode<br>Member of the Executive Committee - Cllr. MP Vilakazi<br>Member of the Executive Committee - Cllr BR Hlongwane<br>Cllr. GM Ndaba (resigned in November 2013 - replaced by Cllr MJ Hadebe in December 2013.)<br>Cllr. MC Zondo<br>Cllr. MN Dubazana<br>Cllr. MV Hlatshwayo<br>Cllr. BE Nene<br>Cllr. BL Ngwenya<br>Cllr. KI Hadebe<br>Cllr. TM Ndaba<br>Cllr. K Simelane<br>Cllr. PAM Mfuphi<br>Cllr. BC Mabizela<br>Cllr. SG Sikhakhane<br>Cllr. NR Hlongwane<br>Cllr. TA Ngwenya<br>Cllr. DS Ndaba<br>Cllr. MB Dubazana<br>Cllr. ZZ Shange<br>Cllr. MW Hadebe<br>Cllr. WE Goulding<br>Cllr. FE Buthelezi<br>Cllr. KA Mazibuko<br>Cllr. SC Hadebe<br>Cllr MJ Hadebe |
| **Grading of local authority** | Grade 2 |
| **Accounting Officer** | Mr S.D Sibande<br>BAed, B.Tech Management, CPMD, MBA |
| **Chief Finance Officer (CFO)** | Mr S.B Ndabandaba<br>BCom Accounting, CPMD |
| **Registered office** | 259 Kingsway Road |

## General Information

| | |
|---|---|
| | Bergville<br>3350 |
| **Business address** | 259 Kingsway Road<br>Bergville |
| **Postal address** | P.O. Box 71<br>Bergville<br>3350 |
| **Bankers** | First National Bank |
| **Auditors** | Auditor-General of South Africa |
| **Telephone Number** | 036 448 8000 |
| **Fax Number** | 036 448 1986 |
| **E- Mail Address** | siza.sibande@okhahlamba.org |

# Index

The reports and statements set out below comprise the unaudited financial statements presented to the Council:



**Abbreviations**

| | |
|---|---|
| CRR | Capital Replacement Reserve |
| DBSA | Development Bank of South Africa |
| SA GAAP | South African Statements of Generally Accepted Accounting Practice |
| GRAP | Generally Recognised Accounting Practice |
| IGRAP | Interpretation of Generally Recognised Accounting Practice |
| IAS | International Accounting Standards |
| IMFO | Institute of Municipal Finance Officers |
| IPSAS | International Public Sector Accounting Standards |
| MFMA | Municipal Finance Management Act |
| MIG | Municipal Infrastructure Grant (Previously CMIP) |

# Approval of Annual Financial Statements

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the unaudited financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the unaudited financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the unaudited financial statements and was given unrestricted access to all financial records and related data.

The unaudited financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The unaudited financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the unaudited financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's cash flow forecast for the 12 months to 30 June 2015 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

Although the accounting officer is primarily responsible for the financial affairs of the municipality, he is supported by the municipality's external auditors.

The unaudited financial statements set out on pages 5 to 64, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2014 and were signed on its behalf by:

**Accounting Officer**
**S. Sibande**

BAed, B.Tech Management, CPMD, MBA

## Statement of Financial Position as at 30 June 2014

| Figures in Rand | Note(s) | 30 June 2014 | 30 June 2013 |
|---|---|---|---|
| **Assets** | | | |
| Current Assets | | | |
| Consumer debtors | 14 | 13,473,964 | 8,545,884 |
| Other receivables from exchange transactions | 15 | 3,061,223 | 125,714 |
| Cash and cash equivalents | 16 | 42,798,188 | 78,828,900 |
| Receivables from non-exchange transactions | 25 | 8,466,074 | - |
| VAT receivable | 10 | 3,142,357 | 2,785,692 |
| | | **70,941,806** | **90,286,190** |
| Non-Current Assets | | | |
| Property, plant and equipment | 11 | 176,321,767 | 98,469,595 |
| Intangible assets | 12 | 517,406 | 56,391 |
| | | **176,839,173** | **98,525,986** |
| Non-current assets held for sale and assets of disposal groups | 13 | - | 85,695 |
| Non-Current Assets | | 176,839,173 | 98,525,986 |
| Current Assets | | 70,941,806 | 90,286,190 |
| Non-current assets held for sale (and) (assets of disposal groups) | | - | 85,695 |
| **Total Assets** | | **247,780,979** | **188,897,871** |
| **Liabilities** | | | |
| Current Liabilities | | | |
| Finance lease obligation | 5 | 3,250,706 | 2,641,449 |
| Operating lease liability | 7 | - | 1,147,557 |
| Unspent conditional grants and receipts | 8 | 10,720,270 | 26,211,024 |
| Trade and other payables from exchange transactions | 9 | 21,943,427 | 13,115,705 |
| | | **35,914,403** | **43,115,735** |
| Non-Current Liabilities | | | |
| Retirement benefit obligation | 4 | 1,873,814 | 1,630,048 |
| Finance lease obligation | 5 | 12,195,884 | 5,122,246 |
| Provisions | 6 | 3,623,046 | 2,637,020 |
| | | **17,692,744** | **9,389,314** |
| Non-Current Liabilities | | 17,692,744 | 9,389,314 |
| Current Liabilities | | 35,914,403 | 43,115,735 |
| Liabilities of disposal groups | | - | - |
| **Total Liabilities** | | **53,607,147** | **52,505,049** |
| Assets | | 247,780,979 | 188,897,871 |
| Liabilities | | (53,607,147) | (52,505,049) |
| **Net Assets** | | **194,173,832** | **136,392,822** |
| **Net Assets** | | | |
| Accumulated surplus | | 194,173,832 | 136,392,822 |

## Statement of Financial Performance

| Figures in Rand | Note(s) | 12 months ended 30 June 2014 | 12 months ended 30 June 2013 |
|---|---|---|---|
| **Revenue** | | | |
| Service charges | 26 | 353,995 | 354,502 |
| Rendering of services | | 183,824 | 128,932 |
| Rental of facilities and equipment | | 4,386 | 22,350 |
| Income from agency services | | 527,442 | 613,590 |
| Other Revenue | 19 | 655,752 | 373,126 |
| Subsidies | | 1,122,991 | 2,011,701 |
| Interest received | 27 | 3,529,363 | 2,535,437 |
| Property rates | 18 | 22,151,702 | 15,183,376 |
| Property rates - penalties imposed | | 3,075,820 | 2,469,597 |
| Government grants & subsidies | 20 | 123,104,868 | 100,570,901 |
| Public contributions and donations | | 88,731 | 62,052 |
| Fines | | 577,407 | 151,484 |
| **Total revenue** | **17** | **155,376,281** | **124,477,048** |
| **Expenditure** | | | |
| Personnel | 22 | (36,291,261) | (27,712,333) |
| Remuneration of councillors | 23 | (7,337,666) | (6,782,971) |
| Retirement Benefits | 4 | (243,766) | (1,163,405) |
| Depreciation and amortisation | 28 | (9,594,427) | (4,001,495) |
| Finance costs | 29 | (1,116,523) | (416,517) |
| Debt impairment | 24 | (5,338,165) | (3,437,307) |
| Repairs and maintenance | | (5,532,246) | (1,998,751) |
| Landfill Rehabilitation | 6 | (986,026) | (279,788) |
| General Expenses | 21 | (37,030,502) | (25,436,335) |
| **Total expenditure** | | **(103,470,582)** | **(71,228,902)** |
| | | - | - |
| Total revenue | | 155,376,281 | 124,477,048 |
| Total expenditure | | (103,470,582) | (71,228,902) |
| **Operating surplus** | | **51,905,699** | **53,248,146** |
| Gain (loss) on disposal of assets and liabilities | | 697,150 | (1,240,757) |
| Impairment of assets | | (211,867) | (1,115,168) |
| Deemed cost of assets | | 110,385 | - |
| Reversal of operating lease | | 1,147,557 | - |
| | | **1,743,225** | **(2,355,925)** |
| Surplus before taxation | | 53,648,924 | 50,892,221 |
| Taxation | | - | - |
| **Surplus for the year** | | **53,648,924** | **50,892,221** |

## Okhahlamba Local Municipality
Financial Statements for the year ended 30 June 2014

# Statement of Changes in Net Assets

| Figures in Rand | Accumulated surplus | Total net assets |
|---|---|---|
| **Balance at 01 July 2012** | **85,500,601** | **85,500,601** |
| Changes in net assets | | |
| Surplus for the year | 50,892,221 | 50,892,221 |
| Total changes | 50,892,221 | 50,892,221 |
| Opening balance as previously reported | 136,392,814 | 136,392,814 |
| Prior year adjustments | (2,953) | (2,953) |
| **Balance at 01 July 2013 as restated** | **140,498,958** | **140,498,958** |
| Changes in net assets | | |
| Surplus for the year | 53,648,924 | 53,648,924 |
| Prior year adjustments | 25,951 | 25,951 |
| Total changes | 53,674,875 | 53,674,875 |
| **Balance at 30 June 2014** | **194,173,833** | **194,173,833** |

## Cash Flow Statement

| Figures in Rand | Note(s) | 12 months ended 30 June 2014 | 12 months ended 30 June 2013 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| **Receipts** | | | |
| Cash receipts from ratepayers, government and other | | 122,065,197 | 148,090,583 |
| Cash paid to suppliers and employees | | (80,123,846) | (99,423,123) |
| **Gross cashflows from operating activities** | 31 | 41,941,351 | 48,667,460 |
| Interest received | | 3,529,363 | 2,535,437 |
| Donations received | | - | 62,052 |
| Finance costs | | (1,116,523) | (416,517) |
| | | 2,412,840 | 2,180,972 |
| **Net cash flows from operating activities** | | **44,354,191** | **51,100,373** |
| **Cash flows from investing activities** | | | |
| Purchase of property, plant and equipment | 11 | (87,566,405) | (40,631,964) |
| Purchase of other intangible assets | 12 | (587,089) | - |
| Net cash flows of discontinued operations | | 85,695 | - |
| **Net cash flows from investing activities** | | **(88,067,799)** | **(40,631,964)** |
| **Cash flows from financing activities** | | | |
| Movement in annuity loans | | - | (9,450) |
| New loans raised/ (repaid) | | 7,682,896 | 3,542,135 |
| **Net cash flows from financing activities** | | **7,682,896** | **3,532,685** |
| **Net increase/(decrease) in cash and cash equivalents** | | **(36,030,712)** | **14,001,094** |
| Cash and cash equivalents at the beginning of the year | | 78,828,900 | 64,827,806 |
| **Cash and cash equivalents at the end of the year** | 16 | **42,798,188** | **78,828,900** |

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

| Figures in Rand | Approved budget | Adjustments | Final Budget | Actual amounts on comparable basis | Difference between final budget and actual | Reference |
|---|---|---|---|---|---|---|
| **Statement of Financial Performance** | | | | | | |
| **Revenue** | | | | | | |
| **Revenue from exchange transactions** | | | | | | |
| Rental of facilities and equipment | 50,000 | - | **50,000** | 4,386 | **(45,614)** | 39.1 |
| Income from agency services | 2,370,490 | - | **2,370,490** | 527,442 | **(1,843,048)** | 39.2 |
| Other revenue | 7,991,741 | - | **7,991,741** | 1,193,571 | **(6,798,170)** | 39.4 |
| Interest received | 1,399,200 | - | **1,399,200** | 3,529,363 | **2,130,163** | 39.5 |
| **Total revenue from exchange transactions** | **11,811,431** | **-** | **11,811,431** | **5,254,762** | **(6,556,669)** | |
| **Revenue from non-exchange transactions** | | | | | | |
| Property rates | 22,072,536 | - | **22,072,536** | 22,151,702 | **79,166** | 39.6 |
| Property rates - penalties imposed | 1,716,130 | - | **1,716,130** | 3,075,820 | **1,359,690** | 39.7 |
| Subsidies | 1,990,972 | - | **1,990,972** | 1,122,991 | **(867,981)** | 39.3 |
| Government grants | 115,502,058 | - | **115,502,058** | 123,104,868 | **7,602,810** | 39.8 |
| Public contributions and donations | - | - | **-** | 88,731 | **88,731** | 39.4 |
| Fines | 322,080 | - | **322,080** | 577,407 | **255,327** | 39.9 |
| **Total revenue from non-exchange transactions** | **141,603,776** | **-** | **141,603,776** | **150,121,519** | **8,517,743** | |
| 'Total revenue from exchange transactions' | 11,811,431 | - | **11,811,431** | 5,254,762 | **(6,556,669)** | |
| 'Total revenue from non-exchange transactions' | 141,603,776 | - | **141,603,776** | 150,121,519 | **8,517,743** | |
| **Total revenue** | **153,415,207** | **-** | **153,415,207** | **155,376,281** | **1,961,074** | |
| **Expenditure** | | | | | | |
| Personnel | (32,023,591) | (4,270,381) | **(36,293,972)** | (36,291,261) | **2,711** | 39.10 |
| Remuneration of councillors | (6,979,478) | (358,267) | **(7,337,745)** | (7,337,666) | **79** | 39.10 |
| Depreciation and amortisation | (12,079,722) | 2,433,937 | **(9,645,785)** | (9,594,427) | **51,358** | 39.11 |
| Finance costs | (118,146) | (2,463,854) | **(2,582,000)** | (1,116,523) | **1,465,477** | 39.12 |
| Repairs and maintenance | (7,250,484) | (2,038,072) | **(9,288,556)** | (5,532,246) | **3,756,310** | 39.13 |
| General Expenses | (40,373,784) | (5,410,754) | **(45,784,538)** | (43,598,459) | **2,186,079** | 39.14 |
| **Total expenditure** | **(98,825,205)** | **(12,107,391)** | **(110,932,596)** | **(103,470,582)** | **7,462,014** | |
| | 153,115,207 | - | **153,115,207** | 155,376,281 | **2,261,074** | |
| | (98,825,205) | (12,107,391) | **(110,932,596)** | (103,470,582) | **7,462,014** | |
| **Operating surplus** | **54,290,002** | **(12,107,391)** | **42,182,611** | **51,905,699** | **9,723,088** | |
| Gain on disposal of assets and liabilities | - | - | - | 697,150 | **697,150** | 39.15 |
| Impairment of assets | - | - | - | (211,867) | **(211,867)** | 39.15 |
| Deemed cost of Assets | - | - | - | 110,385 | **110,385** | 39.15 |
| Reversal of operating lease | - | - | - | 1,147,557 | **1,147,557** | 39.15 |

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

| Figures in Rand | Approved budget | Adjustments | Final Budget | Actual amounts on comparable basis | Difference between final budget and actual | Reference |
|---|---|---|---|---|---|---|
| | - | - | - | **1,743,225** | **1,743,225** | |
| | 54,290,002 | (12,107,391) | **42,182,611** | 51,905,699 | **9,723,088** | |
| | - | - | - | 1,743,225 | **1,743,225** | |
| **Surplus before taxation** | **54,290,002** | **(12,107,391)** | **42,182,611** | **53,648,924** | **11,466,313** | |
| Deficit before taxation | 54,290,002 | (12,107,391) | **42,182,611** | 53,648,924 | **11,466,313** | |
| Taxation | - | - | - | - | - | |
| **Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement** | **54,290,002** | **(12,107,391)** | **42,182,611** | **53,648,924** | **11,466,313** | |

## Accounting Policies

### 1. Basis of Presentation

The financial statements have been prepared on an accrual basis of accounting and are in accordance with the historical cost convention.

These annual financial statements have been prepared in accordance with Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act, (Act No 56 of 2003).

**Changes in accounting policy and comparability**
Accounting Policies have been consistently applied.

These accounting policies are consistent with the previous period.

### 1.1 Critical judgments, estimations and assumptions

The following are the critical judgments, apart from those involving estimations, that the management has made in the process of applying the municipality's Accounting Policies and that have the most significant effect on the amounts recognised in Annual Financial Statements:

**1.2.1 Revenue Recognition**
Accounting Policy 1.7 on Revenue from Exchange Transactions and Revenue from Non-exchange Transactions describes the conditions under which revenue will be recorded by the management of the municipality.
In making their judgment, the management considered the detailed criteria for the recognition of revenue as set out in GRAP 9: Revenue from Exchange Transactions and GRAP 23: Revenue from Non-exchange Transactions. In particular when services are rendered, whether the service has been rendered. The management of the municipality is satisfied that recognition of the revenue in the current year is appropriate.

**1.2.2 Financial assets and liabilities**
The classification of financial assets and liabilities into categories is based on judgement by management.

**1.2.3 Impairment of Financial Assets**
Accounting Policy 1.5 on Impairment of Financial Assets describes the process followed to determine the value by which financial assets should be impaired. In making the estimation of the impairment, the management of the municipality considered the detailed criteria of impairment of financial assets as set out in GRAP 104: Financial Instruments. The management of the municipality is satisfied that the impairment of financial assets recorded during the year, is appropriate.

**1.2.4 Useful lives of Property, Plant and Equipment ("PPE")**
As described in Accounting Policies 1.2 and 1.3, the municipality depreciates/amortises its property, plant and equipment, and intangible assets over the estimated useful lives of the assets, taking into account the residual values of the assets at the end of their useful lives, which is determined when the assets are available for use. The useful lives and residual values of the assets are based on industry knowledge.

**1.2.4 Impairment: Write down of PPE and Inventories**
Significant estimates and judgments are made relating to PPE impairment tests and write down of inventories to net realisable values.

**1.2.5 Defined Benefit Plan Liabilities**
As described in Accounting Policy 1.9, the municipality obtains actuarial valuations of its defined benefit plan liabilities. The defined benefit obligations of the municipality that were identified are Post-retirement Health Benefit Obligations and Long-service Awards. The estimated liabilities are recorded in accordance with the requirements of IAS 19 Employee Benefits. Details of the liabilities and the key assumptions made by the actuaries in estimating the liabilities are provided in Note 4 to the financial statements.

**1.2.6 Presentation of currency**
The financial statements are presented in South African Rand, rounded off to the nearest Rand which is the municipality's functional currency.

**1.2.7 Going concern assumption**
The financial statements have been prepared on a going concern basis.

### 1.1 Critical judgments, estimations and assumptions (continued)

#### 1.2.8 Offsetting

Assets, liabilities, revenues and expenses have not been offset, except when offsetting is required or permitted by a Standard of GRAP.

### 1.2 Property, plant and equipment

**Initial Recognition**

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of services, rental to others, or for administrative purposes, and are expected to be used during more than one year.

The cost of an item of property, plant and equipment is recognised as an asset if, and only if it is probable that future economic benefits or service potential associated with the item will flow to the municipality, and if the cost or fair value of the item can be measured reliably.

Property, plant and equipment are initially recognised at cost on its acquisition date or in the case of assets acquired by grant or donation, deemed cost, being the fair value of the asset on initial recognition. The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by the municipality. Trade discounts and rebates are deducted in arriving at the cost. The cost, where applicable, also includes the necessary costs of dismantling and removing the asset and restoring the site on which it is located.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.
Where an asset is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of that asset on the date acquired.

The cost of an item of property, plant and equipment acquired in exchange for a non-monetary assets or monetary assets, or a combination of monetary and non-monetary assets is measured at its fair value. If the acquired item could not be measured at its fair value, its cost was measured at the carrying amount of the asset given up.

Major spare parts and servicing equipment qualify as property, plant and equipment when the municipality expects to use them during more than one period. Similarly, if the major spare parts and servicing equipment can be used only in connection with an item of property, plant and equipment, they are accounted for as property, plant and equipment.

**Subsequent Measurement**

Subsequent expenditure relating to property, plant and equipment is capitalised if it is probable that future economic benefits or potential service delivery associated with the subsequent expenditure will flow to the municipality and the cost or fair value of the subsequent expenditure can be reliably measured. Subsequent expenditure incurred on an asset is only capitalised when it increases the capacity or future economic benefits associated with the asset.

Where the municipality replaces parts of an asset, it derecognises the part of the asset being replaced and capitalises the new component.
Subsequently all property plant and equipment, are measured at cost (which includes deemed cost for previously unrecognised assets), less accumulated depreciation and accumulated impairment losses.

Compensation from third parties for items of property, plant and equipment that were impaired, lost or given up is included in surplus or deficit when the compensation becomes receivable.

**Depreciation**

Land is not depreciated as it is regarded as having an indefinite life. Depreciation of assets other than land is calculated, using the straight line method, to depreciate their cost to their residual values over the estimated useful lives of the assets. The depreciation method used reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the municipality.

### 1.2 Property, plant and equipment (continued)

Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately. The depreciation rates are based on the following estimated useful lives.
Depreciation only commences when the asset is available for use, unless stated otherwise.

The assets' residual values, estimated useful lives and depreciation method are reviewed annually, and adjusted prospectively if appropriate, at each reporting date.

| **Details** | **Years** |
| --- | --- |
| Infrastructure | |
| • Roads - Gravel | 3-10 |
| • Roads - Tar | 10-50 |
| • Paving | 5-30 |
| • Solid Waste Disposal | 10-50 |
| • Community Assets | 5-20 |
| • Plant and machinery | 3-15 |
| • Office Equipment | 3-10 |
| • Motor Vehicles | 5 |
| • IT Equipment | 5-10 |
| • Leased Assets | 3-5 |
| • Buildings | 30 |

**Capital Work in Progress**

Capital work in progress is stated at historical cost. Depreciation only commences when the asset is available for use.

**Finance Leases**

Assets capitalised under finance leases are depreciated over their expected useful lives on the same basis as PPE controlled by the entity or where shorter, the term of the relevant lease if there is no reasonable certainty that the municipality will obtain ownership by the end of the lease term.

**Infrastructure Assets**

Infrastructure Assets are any assets that are part of a network of similar assets. Infrastructure assets are shown at cost less accumulated depreciation and accumulated impairment. Infrastructure assets are treated similarly to all other assets of the municipality.

**Derecognition of Property, Plant and Equipment**

The carrying amount of an item of property, plant and equipment is derecognised on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from derecognition of an item of property, plant and equipment is included in surplus or deficit for the year when the item is derecognised.

Gains or losses are calculated as the difference between the net book value of assets (cost less accumulated depreciation and accumulated impairment losses) and the sales proceeds.

**Impairment of Non-cash Generating Assets**

**Identification**
The municipality assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.
If there is any indication that an asset may be impaired, the recoverable service amount is estimated for the individual asset. If it is not possible to estimate the recoverable service amount of the individual asset no impairment recognised.

### 1.2 Property, plant and equipment (continued)

**Value in use**
Value in use of an asset is the present value of the asset's remaining service potential.

The present value of the remaining service potential of an asset is determined using the following approach:

Depreciated replacement cost approach:

The present value of the remaining service potential of a non cash generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition.

An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

The replacement cost and reproduction cost of an asset is determined on an "optimised" basis. The rationale is that the municipality would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an overdesigned or overcapacity asset. Overdesigned assets contain features which are unnecessary for the goods or services the asset provides.

Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

Recognition and measurement

If the recoverable service amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. That reduction is an impairment loss.

An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in surplus or deficit for the year.An impairment loss is recognised for non-cash-generating units if the recoverable service amount of the unit is less than the carrying amount of the unit. The impairment loss is allocated to reduce the carrying amount of the assets of the unit as follows:

•To the assets of the unit, pro rata on the basis of the carrying amount of each asset in the unit.

A municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets may no longer exist or may have decreased. If any such indication exists, the recoverable service amounts of those assets are estimated.

The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation is recognised immediately in surplus or deficit for the year.

### 1.3 Intangible assets

**Initial Recognition**

Identifiable non–monetary assets without physical substance which are held for use in the production or supply of services, for rental to others, or for administrative purposes are classified and recognised as intangible assets. The municipality recognises an intangible asset only when it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality and the cost or fair value of the asset can be measured reliably.

### 1.3 Intangible assets (continued)

Internally generated intangible assets are subject to strict recognition criteria before they are capitlised. Research expenditure is recognised as an expense when incurred.Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use on a straight-line basis over its useful life, not exceeding five years. Development assets are tested for impairment annually.

Intangible assets are initially recognised at cost. Where an intangible asset is acquired at no cost or for a nominal consideration, its cost is its fair value as at the date it is acquired. Where an intangible asset is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

The municipality does not recognise electricity servitudes arising from a legal right as intangible assets.

#### Subsequent Measurement, Amortisation and Impairment

Subsequently all intangible assets are measured at cost, less accumulated amortisation and accumulated impairment losses.

Amortisation is charged on a straight-line basis over the intangible assets' useful lives, which are estimated to be between 3 to 5 years. Where intangible assets are deemed to have an indefinite useful life, such intangible assets are not amortised, for example servitudes (excluding electricity servitudes) obtained by the municipality give the municipality access to land for specific purposes for an unlimited period - however, such intangible assets are subject to an annual impairment test.

Intangible assets are annually tested for impairment, including intangible assets not yet available for use. Where items of intangible assets have been impaired, the carrying value is adjusted by the impairment loss, which is recognised as an expense in the period that the impairment is identified except where the impairment reverses a previous revaluation. The impairment loss is the difference between the carrying amount and the recoverable amount.

The estimated useful life and amortisation method are reviewed annually. Any adjustments arising from the annual review are applied prospectively as a change in accounting estimate in surplus or deficit for the year.

#### Derecognition of Intangible Assets

The carrying amount of an intangible asset is derecognised on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from derecognition of an intangible asset is included in surplus or deficit when the asset is derecognised. Gains are not included in revenue.

Gains or losses are calculated as the difference between the net book value of assets (cost less accumulated amortisation and accumulated impairment losses) and the sales proceeds. This is included in surplus or deficit for the year as a gain or loss on disposal of intangible assets.

### 1.4 Investment property

#### Initial Recognition

Investment property includes property (land or a building, or part of a building, or both land and buildings held under a finance lease) held to earn rentals and/or for capital appreciation, rather than held to meet service delivery objectives, the production or supply of services, or the sale of an asset in the ordinary course of operations.

At initial recognition, the municipality measures investment property at cost including transaction costs once it meets the definition of investment property. However, where an investment property was acquired through a non-exchange transaction or at a nominal value its cost is its fair value as at the date of acquisition.

The cost of self-constructed investment property is the cost at date of completion.

### 1.4 Investment property (continued)

Based on management's judgement, the following criteria have been applied to distinguish investment properties from owner occupied property or property held for resale:

• All properties held to earn market-related rentals or for capital appreciation or both and that are not used for administrative purposes and that will not be sold within the next 12 months are classified as Investment Properties;

• Land held for a currently undetermined future use. (If the municipality has not determined that it will use the land as owner-occupied property or for short-term sale in the ordinary course of business, the land is regarded as held for capital appreciation);

• Property that is being constructed or developed for future use as investment property;

• A building owned by the municipality (or held by the municipality under a finance lease) and leased out under one or more operating leases; and

• A building that is vacant but is held to be leased out under one or more operating leases on a commercial basis to external parties.

The following assets do not fall in the ambit of Investment Property and shall be classified as Property, Plant and Equipment, Inventory or Non-Current Assets Held for Sale, as appropriate:

• Property intended for sale in the ordinary course of operations or in the process of construction or development for such sale;

• Property being constructed or developed on behalf of third parties;

• Owner-occupied property, including (among other things) property held for future use as owner-occupied property, property held for future development and subsequent use as owner-occupied property, property occupied by employees such as housing for personnel (whether or not the employees pay rent at market rates) and owner-occupied property awaiting disposal;

• Property that is leased to another entity under a finance lease;

• Property held to provide a social service and which also generates cash inflows, e.g. property rented out below market rental to sporting bodies, schools, low income families, etc. and ;

• Property held for strategic purposes or service delivery.

**Subsequent Measurement - Fair Value Model**

Investment property is measured using the fair value model. Investment property is carried at fair value, representing open market value determined annually by external valuers at the reporting date. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. A gain or loss arising from a change in the fair value of investment property is included in surplus or deficit for the year.

The carrying amount of an investment property is derecognised on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from derecognition of an investment property is included in surplus or deficit for the year when the asset is derecognised.

Gains or losses are calculated as the difference between the net book value of assets (fair value) and the sales proceeds.

### 1.5 Financial instruments

The municipality has various types of financial instruments and these can be broadly categorised as either Financial Assets or Financial Liabilities.

### 1.5 Financial instruments (continued)

**Financial Assets - Classification**

A financial asset is any asset consisting of cash or a contractual right to receive cash. The municipality has the following types of financial assets as reflected on the face of the Statement of Financial Position or in the notes thereto:

In accordance with GRAP 104, the Financial Assets of the municipality are classified as follows into the three categories allowed by this standard:

**Type of Financial Asset**
Investments
Consumer debtors
Other receivables from exchange transactions
Cash and cash equivalents

Financial assets at amortised cost are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months, which are classified as non-current assets.

**Financial Liabilities - Classification**

A financial liability is a contractual obligation to deliver cash or another financial asset to another entity. The municipality has the following types of financial liabilities as reflected on the face of the Statement of Financial Position or in the notes thereto:

- Finance lease obligation
- Operating lease liability
- Trade and other payables from exchange transactions

In accordance with IAS 39.09, the Financial Liabilities of the municipality are classified into the following category as allowed by this standard

- Financial liabilities at amortised cost.

Financial liabilities at amortised cost are initially measured at fair value, net of transaction costs. These are subsequently measured at amortised cost using the Effective interest method, with interest expense recognised on an effective yield basis.

**Initial and Subsequent Measurement**

Financial Assets:

Financial assets at amortised cost are initially measured at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset. Subsequently, these assets are measured at amortised cost using the Effective Interest Method less any impairment, with revenue recognised on an effective yield basis.

Financial assets are recognised on the trade date at which the municipality becomes a party to the contractual provisions of the instrument.

Financial Liabilities:

Financial Liabilities at amortised cost are initially measured at fair value net of transaction costs. Subsequently, these liabilities are measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.Financial liabilities are recognised on the trade date at which the municipality becomes a party to the contractual provisions of the instrument.

**Impairment of Financial Assets**

# Accounting Policies

### 1.5 Financial instruments (continued)

Financial assets are assessed for indicators of impairment at reporting date. Financial assets are impaired where there is objective evidence of impairment of Financial Assets (such as the probability of insolvency or significant financial difficulties of the debtor). If there is such evidence the recoverable amount is estimated and an impairment loss is recognised in accordance with GRAP 104.

Initially Accounts Receivable are valued at fair value and subsequently carried at amortised cost using the effective interest rate method. An estimate is made for doubtful debt based on past default experience of all outstanding amounts at year-end. Amounts receivable within 12 months from the date of reporting are classified as current.

A provision for impairment of trade receivables is established when there is objective evidence that the municipality will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The provision is made whereby the recoverability of Consumer Debtors is assessed individually or collectively after grouping the assets in financial assets with similar credit risk characteristics if individual assessment was not possible.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets and recognised in surplus or deficit for the year with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in surplus or deficit for the year.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through surplus or deficit for the year to the extent that the carrying amount of the instruments at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

**Derecognition of Financial Assets**

The municipality derecognises Financial Assets only when the contractual rights to the cash flows from the asset expire or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity, except when Council approves the write-off of Financial Assets due to non-recoverability.

If the municipality neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the municipality recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the municipality retains substantially all the risks and rewards of ownership of a transferred financial asset, the municipality continues to recognise the financial asset and also recognises a collateralized borrowing for the proceeds received.

**Derecognition of Financial Liabilities**

The municipality derecognises Financial Liabilities when, and only when, the municipality's obligations are discharged, cancelled or they expire.

### 1.5 Financial instruments (continued)

**Receivables from exchange transactions**

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in surplus or deficit when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the deficit is recognised in surplus or deficit within operating expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in surplus or deficit.

Trade and other receivables are classified as loans and receivables.

**Payables from exchange transactions**

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

**Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially and subsequently recorded at fair value.

### 1.6 Non-current assets held for discontinued operations

**Non-current assets held for sale**

Initial recognition

Non-current Assets and Disposal Groups are classified as held-for-sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Council must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Subsequent Measurement

Non-current Assets (and Disposal Groups) classified as held-for-sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

A non-current asset is not depreciated (or amortised) while it is classified as held for sale, or while it is part of a disposal group classified as held for sale.

Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale are recognised in surplus or deficit.

### 1.7 Revenue recognition

**General**

Revenue from exchange transactions

### 1.7 Revenue recognition (continued)

Revenue from exchange transactions refers to revenue that accrued to the municipality directly in return for services rendered / goods sold, the value of which approximates the consideration received or receivable.

Revenue comprises the fair value of the consideration received or receivable for the sale or rendering of services in the ordinary course of the municipality's activities. Revenue is shown net of value-added tax, returns, rebates and discounts.

The municipality recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits or service potential will flow to the municipality and when specific criteria have been met for each of the municipality's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The municipality bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue from non-exchange transactions

Revenue from non-exchange transactions refers to transactions where the municipality received revenue from another entity without directly giving approximately equal value in exchange. Revenue from non-exchange transactions is recognised to the extent that the related receipt or receivable qualifies for recognition as an asset and there is no liability to repay the amount.

Revenue from Exchange Transactions

<u>Finance Income</u>
Interest earned on investments is recognised in surplus or deficit for the year on the time proportionate basis that takes into account the effective yield on the investment.

<u>Tariff Charges</u>
Revenue arising from the application of the approved tariff of charges is recognised when the relevant service is rendered by applying the relevant authorised tariff.

<u>Rentals</u>
Revenue from the rental of facilities and equipment classified as operating leases is recognised on a straight-line basis over the term of the lease agreement, where such lease periods span over more than one financial year.

Revenue from Non-exchange Transactions

<u>Rates and Taxes</u>
Revenue from property rates is recognised when the legal entitlement to this revenue arises. Collection charges are recognised when such amounts are legally enforceable. Penalty interest on unpaid rates is recognised on a time proportion basis with reference to the principal amount receivable and effective interest rate applicable. A composite rating system charging different rate tariffs is employed. Rebates are granted to certain categories of ratepayers and are deducted from revenue.

<u>Fines</u>
Revenue from the issuing of fines is recognised when:
- it is probable that the economic benefits of service potential associated with the transaction will flow to the municipality
- the amount of the revenue can be measured reliability.

An estimate is made for the revenue amount collected for spot fines and summonses based on past experience of amounts collected. Where a reliable estimate cannot be made of revenue from summonses, the revenue from summonses is recognised when the public prosecutor pay over to the municipality the cash actually collected on summonses issued.
In prior periods, fines constitute both spot fines and summonses. Revenue from spot fines and summonses is recognised when payment is received, together with an estimate of spot fines and summonses that will received based on past experience of amounts collected.

<u>Public contributions</u>
Revenue from public contributions is recognised when all conditions associated with the contribution have been met or where the contribution is to finance property, plant and equipment, when such items of property, plant and equipment are brought into use. Where public contributions have been received and the municipality has not met the condition, a liability is recognised.

## Accounting Policies

### 1.7 Revenue recognition (continued)

Revenue from Recovery of Unauthorised, Irregular, Fruitless and Wasteful Expenditure

Revenue from the recovery of unauthorised, irregular, fruitless and wasteful expenditure is based on legislated procedures, including those set out in the Municipal Finance Management Act (Act No.56 of 2003) and is recognised when the recovery thereof from the responsible councillors or officials is virtually certain. Such revenue is based on legislated procedures.

### 1.8 Provisions and contingencies

Provisions are recognised when the municipality has a present or constructive obligation as a result of past events, it is probable that an outflow of resources embodying future economic benefits or service potential will be required to settle the obligation and a reliable estimate can be made of the obligation.

Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision where there is sufficient objective evidence that they will occur. Gains from the expected disposal of assets are not taken into account in measuring the a provision. Provisions are not recognised for future operating losses. The present obligation under an onerous contract is recognised and measured as a provision.

Provisions are reviewed at reporting date and the amount of a provision is the present value of the expenditure expected to be required to settle the obligation. When the effect of discounting is material, provisions are determined by discounting the expected future cash flows that reflect current market assessments of the time value of money. The impact of the periodic unwinding of the discount is recognised in the Statement of Financial Performance as a finance cost as it occurs.

### 1.9 Employee benefits

#### Short-term employee benefits

Remuneration to employees is recognised in surplus or deficit for the year as the services are rendered, except for non-accumulating benefits, which are only recognised when the specific event occurs.

The costs of all short-term employee benefits such as leave pay, are recognised during the period in which the employee renders the related service. The liability for leave pay is based on the total accrued leave days at year end and is shown as an accrual in the Statement of Financial Position. The municipality recognises the expected cost of performance bonuses only when the municipality has a present legal or constructive obligation to make such payment and a reliable estimate can be made.

#### Defined contribution plans

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

Payments made to industry-managed (or state plans) retirement benefit schemes are dealt with as defined contribution plans where the entity's obligation under the schemes is equivalent to those arising in a defined contribution retirement benefit plan.

### 1.9 Employee benefits (continued)

#### Defined benefit plans

For defined benefit plans the cost of providing the benefits is determined using the projected credit method.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan.

Consideration is given to any event that could impact the funds up to end of the reporting period where the interim valuation is performed at an earlier date.

Past service costs are recognised immediately to the extent that the benefits are already vested, and are otherwise amortised on a straight line basis over the average period until the amended benefits become vested.

To the extent that, at the beginning of the financial period, any cumulative unrecognised actuarial gain or loss exceeds ten percent of the greater of the present value of the projected benefit obligation and the fair value of the plan assets (the corridor), that portion is recognised in surplus or deficit over the expected average remaining service lives of participating employees. Actuarial gains or losses within the corridor are not recognised.

Gains or losses on the curtailment or settlement of a defined benefit plan is recognised when the entity is demonstrably committed to curtailment or settlement.

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is presented as the net of the amount recognised for a reimbursement.

The amount recognised in the statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service costs, and reduces by the fair value of plan assets.

Any asset is limited to unrecognised actuarial losses and past service costs, plus the present value of available refunds and reduction in future contributions to the plan.

#### Past service costs

Past service costs are recognised immediately in surplus or deficit, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

#### Defined Contribution Plans

A defined contribution plan is a plan under which the municipality pays fixed contributions into a separate entity. The municipality has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to service in the current or prior periods.

The municipality's contributions to the defined contribution funds are established in terms of the rules governing those plans. Contributions are recognised in surplus or deficit for the year in which the service is rendered by the relevant employees. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available. The municipality has no further payment obligations once the contributions have been paid.

#### Defined Benefit Plans

A defined benefit plan is a post- employment benefit plan other than a defined contribution plan.

For defined benefit plans the cost of providing the benefits is determined using the projected unit credit method.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan.

### 1.9 Employee benefits (continued)

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged to surplus or deficit for the year in which they arise.

Pension obligations

The Municipality and its employees contribute to the Natal Joint Municipal Pension Fund and the Government Employees Pension Fund. The Natal Joint Superannuation & Retirement Funds and Government Employee Pension Fund are defined benefit funds. The Natal Joint Provident Fund is a defined contribution fund. The schemes are funded through payments to fund administrator or trustee-administered funds, determined by periodic actuarial calculations.

Defined benefit plans have been accounted for as defined contribution plans in accordance with the requirements on multi-employer plans where sufficient information is not available to account for such plans as defined benefit plans. As the fund administrators do not have sufficient information available to allocate the shortfall on liabilities to individual employers, no liability is recognised for any shortfall of fund asset as compared to fund liabilities.

Any surcharges that may be levied by the fund from time to time in order to compensate for shortfalls, are recognised as expenses in the period in which they become payable to the fund. As surcharges are advised long in advance, based on actuarial valuations of the fund as a whole, the necessary provision for the payment thereof is made in the course of the municipality's normal budgeting processes.

Post-retirement Health Care Benefits:

The municipality has an obligation to provide Post-retirement Health Care Benefits to certain of its retirees. According to the rules of the Medical Aid Funds, with which the municipality is associated, a member (who is on the current Conditions of Service), on retirement, is entitled to remain a continued member of the Medical Aid Fund, in which case the municipality is liable for a certain portion of the medical aid membership fee.

The defined benefit liability is the aggregate of the present value of the defined benefit obligation and recognised actuarial gains and losses, adjusted by past service costs where applicable. The plan is unfunded. The present value of the defined benefit obligation is calculated using the projected unit credit method, incorporating actuarial assumptions and an appropriate discount rate. Valuations of these obligations are carried out every year by independent qualified actuaries.

Actuarial gains or losses are accounted for in full and are recognised in the Statement of Financial Performance.

Long-service Allowance

The municipality has an obligation to provide Long-service Allowance Benefits to all of its employees. According to the rules of the Long-service Allowance Scheme, which the municipality instituted and operates, an employee (who is on the current Conditions of Service), is entitled to a cash allowance, as well as additional once-off leave calculated in terms of the rules of the scheme, after 10, 15, 20, 25, 30, 35, 40 and 45 years of continued service.

The municipality's liability is based on an actuarial valuation. The projected unit credit method has been used to value the liabilities. Actuarial gains and losses on the long-term incentives are accounted for in surplus or deficit for the year.

Actuarial gains or losses are accounted for in full and are recognised in surplus or deficit for the year.

### 1.10 Leases

**The Municipality as a Lessee**

Leases are classified as finance leases where substantially all the risks and rewards associated with ownership of an asset are transferred to a municipality. Property, plant and equipment or Intangible Assets subject to finance lease agreements are capitalised at amounts equal to the fair value of the leased asset or, if lower, the present value of the lease payments, each determined at the inception of the lease.

# Accounting Policies

### 1.10 Leases (continued)

Corresponding liabilities are included in the Statement of Financial Position as Finance Lease Liabilities. The corresponding liabilities are initially recognised at the inception of the lease and are measured as the sum of the minimum lease payments due in terms of the lease agreement , discounted for the effect of interest. In discounting the lease payments, the municipality uses the interest rate that exactly discounts the lease payments and unguaranteed residual value to the fair value of the asset plus any direct costs incurred. Lease payments are allocated between the lease finance cost and the capital repayment using the effective interest rate method. Lease finance costs are expensed when incurred.

Subsequent to initial recognition, the leased assets are accounted for in accordance with the stated accounting policies applicable to Property, plant, equipment or Intangible Assets. The lease liability is reduced by the lease payments, which are allocated between the lease finance cost and the capital repayment using the effective interest rate method. Lease finance costs are expensed when incurred. The accounting policies relating to the derecognition of financial instruments are applied to lease payables. The lease asset is depreciated over the shorter of the asset's useful life or the lease term.

Operating leases are those leases that do not fall within the scope of the above definition. Operating lease rentals are recognised as an expense in surplus or deficit for the year on a straight- line basis over the term of the relevant lease.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight - line basis , except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

**The Municipality as a Lessor**

Operating lease rental income is recognised on a straight - line basis over the term of the relevant lease.

**Finance leases - lessee**

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is at prime or otherwise stated in the lease agreement..

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

**Operating leases - lessor**

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in statement of financial performance.

**Operating leases - lessee**

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

### 1.11 Borrowing costs

The Municipality capitalises borrowing costs incurred that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset are recognised as an expense in surplus or deficit for the year.

It is considered inappropriate to capitalise borrowing costs where the link between the funds borrowed and the capital asset acquired cannot be adequately established - the municipality expenses borrowing costs when it is inappropriate to capitalise it. The municipality ceases the capitalisation of borrowing costs when substantially all the activities to prepare the asset for its intended use or sale are complete.

### 1.12 Value Added Tax

The Municipality accounts for Value Added Tax on the payments basis.

### 1.13 Cash and Cash Equivelents

Cash includes cash-on-hand and cash with banks. Cash equivalents are short-term highly liquid investments that are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in value.
For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held on call with banks and investments in financial instruments, net of bank overdrafts.
Bank overdrafts are recorded based on the facility utilised. Finance charges on bank overdrafts are expensed as incurred.

### 1.14 Unauthorised expenditure

Unauthorised expenditure is expenditure that has not been budgeted, expenditure that is not in terms of the conditions of allocation received from another sphere of government , municipality, or organ of state and expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act No 56 of 2003). Unauthorised expenditure is accounted for as an expense in the Statement of Financial Performance. If the expenditure is not condoned by the Council it is treated as an asset until it is recovered or written off as irrecoverable.

### 1.15 Irregular Expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No 56 of 2003), the Municipal Systems Act (Act No 32 of 2000), and the Public Office Bearers Act (Act No 20 of 1998) or is in contravention of the Municipality's or Municipal Entities' supply chain management policies. Irregular expenditure excludes unauthorised expenditure. Unauthorised expenditure is accounted for as an expense in the Statement of Financial Performance. If the expenditure is not condoned by the Council it is treated as an asset until it is recovered or written off as irrecoverable.

### 1.16 Fruitless and Wasteful Expenditure

Fruitless and wasteful expenditure is expenditure that was made in vain and would have been avoided had reasonable care been exercised. Fruitless and wasteful expenditure is accounted for as expenditure in the Statement of Financial Performance. If the expenditure is not condoned by the Council it is treated as an asset until it is recovered or written off as irrecoverable.

### 1.17 Changes in accounting policies, estimates and errors

Changes in accounting policies due to adoption of newly effective Standards of GRAP have been applied retrospectively in accordance with GRAP 3 requirements, except to the extent that it is impracticable to determine the period-specific effects or the cumulative effect of the change in policy or where allowed transitional provisions had been adopted. In such cases the municipality would restate the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practicable.
Changes in accounting estimates are applied prospectively in accordance with GRAP 3 requirements. Details of changes in estimates are disclosed in the notes to the annual financial statements where applicable.
Errors are corrected retrospectively in the period in which the error has occurred in accordance with GRAP 3 requirements, except to the extent that it is impracticable to determine the period-specific effects or the cumulative effect of the error. In such cases the municipality would restate the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practicable.

### 1.18 Related parties

Individuals, including councilors, as well as their close family members, and/or entities are related parties if one party has the ability, directly or indirectly, to control or jointly control the other party or exercise significant influence over the other party in making financial and/or operating decisions. Key management personnel is defined as the Municipal Manager, Chief Financial Officer and all other managers reporting directly to the Municipal Manager or as designated by the Municipal Manager.
Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed.

### 1.19 Events after the reporting date

Events after the reporting date that have been classified as adjusting events have been accounted for in the Annual Financial Statements. The events after the reporting date that are classified as non-adjusting events after the reporting date have been disclosed in the notes to the Annual Financial Statements.

### 1.20 Comparative Information

**Prior year comparatives**
When the presentation or classification of items in the Annual Financial Statements is amended, prior period comparative amounts are reclassified. The nature and reasons for the reclassification are disclosed.

### 1.21 Contingent assets and contingent liabilities

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in the notes to the annual financial statements.

### 1.22 Treatment of administration and other overhead expenses

The costs of internal support services are transferred to the various services and departments to whom resources are made available.

### 1.23 Impairment of cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use.

Useful life is either:
- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

Criteria developed by the municipality to distinguish cash-generating assets from non-cash-generating assets are as follow:

### 1.24 Share capital / contributed capital

An equity instrument is any contract that evidences a residual interest in the assets of an municipality after deducting all of its liabilities.

### 1.25 Risk management of financial assets and liabilities

It is the policy of the municipality to disclose information that enables the user of its financial statements to evaluate the nature and extent of risks arising from financial instruments to which the municipality is exposed on the reporting date. Risks and exposure are disclosed as follows:

**Credit Risk**

•Each class of financial assets is disclosed separately.
•Maximum exposure to credit risk not covered by collateral is specified.
•Financial assets covered by collateral are specified.

**Liquidity Risk**

Liquidity risk is the risk that the municipality will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

Liquidity risk is managed by ensuring that all assets are reinvested at maturity at competitive interest rates in relation to cash flow requirements. Liabilities are managed by ensuring that all contractual payments are met on a timeous basis and, if required, additional new arrangements are established at competitive rates to ensure that cash flow requirements are met.

•A maturity analysis for financial liabilities (where applicable) that shows the remaining undiscounted contractual maturities is disclosed in the notes to the annual financial statements.

**Interest Risk**

Interest rate risk originates from the uncertainty about the fair value or future cash flows of a financial instrument which fluctuate because of changes in market interest rates.

• Borrowings issued at variable rates expose the municipality to cash flow interest rate risk.

• Borrowings issued at fixed rates expose the municipality to fair value interest rate risk.

Management has assessed the impact of interest rate risk on the operations of the municipality and considers the risk to be negligible.

**Market Risk**

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rate and equity prices will affect the municipality's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

### 1.26 Government grants and receipts

Income received from conditional grants , donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria , conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met, a liability is recognised. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the municipality with no future related costs, are recognised as Accounts Receivable in the period in which they become receivable.

Interest earned on investments is treated in accordance with grant conditions. If it is payable to the funder it is recorded as part of the liability and if it is the municipality's interest it is recognised as interest earned in surplus of deficit for the year.

### 2. New standards and interpretations

### 2.1 Interpretations effective and adopted in the current year

In the current year, the municipality has adopted the following interpretations that are effective for the current year.

**IGRAP 1: Interpretation of GRAP: Applying the Probability Test on Initial Recognition of Exchange Revenue**

An entity assesses the probability of each transaction on an individual basis when it occurs. Entities shall not assess the probability on an overall level based on the payment history of recipients of the service in general when the probability of revenue is assessed at initial recognition.

The full amount of revenue will be recognised at initial recognition. Assessing impairment is an event that takes place subsequently to initial recognition. Such impairment is an expense. Revenue is not reduced by this expense.

The effective date of the interpretation is for years beginning on or after 01 April 2010.

The municipality has adopted the interpretation for the first time in the 2014 unaudited financial statements.

The impact of the interpretation is set out in note Changes in Accounting Policy.

### 2.2 Standards effective and adopted in the current year

In the current year, the municipality has adopted the following standards that are effective for the current year:

| Standard/ Interpretation: | Effective date: Years beginning on or after | Expected impact: |
|---|---|---|
| • GRAP 25: Employee benefits | 01 April 2013 | This standard prescribes similar requirements to those in terms of IAS 19: Employee Benefits. Since IAS 19 has been applied in developing the current accounting policy, no impact on the financial statements. |
| • GRAP 1 (as revised 2012): Presentation of Financial Statements | 01 April 2013 | No material changes effected. |
| • GRAP 3 (as revised 2012): Accounting Policies, Change in Accounting Estimates and Errors | 01 April 2013 | No material changes effected. |
| • GRAP 9 (as revised 2012): Revenue from Exchange Transactions | 01 April 2013 | No material changes effected. |
| • GRAP 12 (as revised 2012): Inventories | 01 April 2013 | No material changes effected. |
| • GRAP 13 (as revised 2012): Leases | 01 April 2013 | No material changes effected. |
| • GRAP 16 (as revised 2012): Investment Property | 01 April 2013 | No material changes effected. |
| • GRAP 17 (as revised 2012): Property, Plant and Equipment | 01 April 2013 | No material changes effected. |
| • GRAP 31 (as revised 2012): Intangible Assets (Replaces GRAP 102) | 01 April 2013 | No material changes effected. |

### 2.3 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2014 or later periods:

**GRAP 18: Segment Reporting**

### 2. New standards and interpretations (continued)

Segments are identified by the way in which information is reported to management, both for purposes of assessing performance and making decisions about how future resources will be allocated to the various activities undertaken by the municipality. The major classifications of activities identified in budget documentation will usually reflect the segments for which an entity reports information to management.

Segment information is either presented based on service or geographical segments. Service segments relate to a distinguishable component of an entity that provides specific outputs or achieves particular operating objectives that are in line with the municipality's overall mission. Geographical segments relate to specific outputs generated, or particular objectives achieved, by an entity within a particular region.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

Directive 2 - Transitional provisions for public entities, municipal entities and constitutional institutions, states that no comparative segment information need to be presented on initial adoption of this Standard.

Directive 3 - Transitional provisions for high capacity municipalities states that no comparative segment information need to be presented on initial adoption of the Standard. Where items have not been recognised as a result of transitional provisions under the Standard of GRAP on Property, Plant and Equipment, recognition requirements of this Standard would not apply to such items until the transitional provision in that Standard expires.

Directive 4 – Transitional provisions for medium and low capacity municipalities states that no comparative segment information need to be presented on initial adoption of the Standard. Where items have not been recognised as a result of transitional provisions un the Standard of GRAP on Property, Plant and Equipment and the Standard of GRAP on Agriculture, the recognition requirements of the Standard would not apply to such items until the transitional provision in that standard expires.

The effective date of the standard is for years beginning on or after 01 April 2013.

The municipality expects to adopt the standard for the first time in the 2015 unaudited financial statements.

The expected impact of the standard is additional disclosure in the municipality's unaudited financial statements].

**GRAP 105: Transfers of functions between entities under common control**

The objective of this Standard is to establish accounting principles for the acquirer and transferor in a transfer of functions between entities under common control. It requires an acquirer and a transferor that prepares and presents financial statements under the accrual basis of accounting to apply this Standard to a transaction or event that meets the definition of a transfer of functions. It includes a diagram and requires that entities consider the diagram in determining whether this Standard should be applied in accounting for a transaction or event that involves a transfer of functions or merger.

It furthermore covers Definitions, Identifying the acquirer and transferor, Determining the transfer date, Assets acquired or transferred and liabilities assumed or relinquished, Accounting by the acquirer and transferor, Disclosure, Transitional provisions as well as the Effective date of the standard.

The effective date of the standard is for years beginning on or after 01 April 2014.

The municipality expects to adopt the standard for the first time in the 2015 unaudited financial statements.

It is unlikely that the amendment will have a material impact on the municipality's unaudited financial statements.

**GRAP 106: Transfers of functions between entities not under common control**

The objective of this Standard is to establish accounting principles for the acquirer in a transfer of functions between entities not under common control. It requires an entity that prepares and presents financial statements under the accrual basis of accounting to apply this Standard to a transaction or other event that meets the definition of a transfer of functions. It includes a diagram and requires that entities consider the diagram in determining whether this Standard should be applied in accounting for a transaction or event that involves a transfer of functions or merger.

## 2. New standards and interpretations (continued)

It furthermore covers Definitions, Identifying a transfer of functions between entities not under common control, The acquisition method, Recognising and measuring the difference between the assets acquired and liabilities assumed and the consideration transferred, Measurement period, Determining what is part of a transfer of functions, Subsequent measurement and accounting, Disclosure, Transitional provisions as well as the Effective date of the standard.

The effective date of the standard is for years beginning on or after 01 April 2014.

The municipality expects to adopt the standard for the first time in the 2015 unaudited financial statements.

It is unlikely that the amendment will have a material impact on the municipality's unaudited financial statements.

### GRAP 107: Mergers

The objective of this Standard is to establish accounting principles for the acquirer in a transfer of functions between entities not under common control. It requires an entity that prepares and presents financial statements under the accrual basis of accounting to apply this Standard to a transaction or other event that meets the definition of a transfer of functions. It includes a diagram and requires that entities consider the diagram in determining whether this Standard should be applied in accounting for a transaction or event that involves a transfer of functions or merger.

It furthermore covers Definitions, Identifying a transfer of functions between entities not under common control, The acquisition method, Recognising and measuring the difference between the assets acquired and liabilities assumed and the consideration transferred, Measurement period, Determining what is part of a transfer of functions, Subsequent measurement and accounting, Disclosure, Transitional provisions as well as the Effective date of the standard.

The effective date of the standard is for years beginning on or after 01 April 2014.

The municipality expects to adopt the standard for the first time in the 2015 unaudited financial statements.

It is unlikely that the amendment will have a material impact on the municipality's unaudited financial statements.

### GRAP 20: Related parties

The objective of this standard is to ensure that a reporting entity's unaudited financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and surplus or deficit may have been affected by the existence of related parties and by transactions and outstanding balances with such parties.

An entity that prepares and presents financial statements under the accrual basis of accounting (in this standard referred to as the reporting entity) shall apply this standard in:

- identifying related party relationships and transactions;
- identifying outstanding balances, including commitments, between an entity and its related parties;
- identifying the circumstances in which disclosure of the items in (a) and (b) is required; and
- determining the disclosures to be made about those items.

This standard requires disclosure of related party relationships, transactions and outstanding balances, including commitments, in the consolidated and separate financial statements of the reporting entity in accordance with the Standard of GRAP on Consolidated and Separate Financial Statements. This standard also applies to individual unaudited financial statements.

Disclosure of related party transactions, outstanding balances, including commitments, and relationships with related parties may affect users' assessments of the financial position and performance of the reporting entity and its ability to deliver agreed services, including assessments of the risks and opportunities facing the entity. This disclosure also ensures that the reporting entity is transparent about its dealings with related parties.

The standard states that a related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control. As a minimum, the following are regarded as related parties of the reporting entity:

- A person or a close member of that person's family is related to the reporting entity if that person:
  - has control or joint control over the reporting entity;
  - has significant influence over the reporting entity;
  - is a member of the management of the entity or its controlling entity.

**2. New standards and interpretations (continued)**

- An entity is related to the reporting entity if any of the following conditions apply:
  - the entity is a member of the same economic entity (which means that each controlling entity, controlled entity and fellow controlled entity is related to the others);
  - one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of an economic entity of which the other entity is a member);
  - both entities are joint ventures of the same third party;
  - one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
  - the entity is a post-employment benefit plan for the benefit of employees of either the entity or an entity related to the entity. If the reporting entity is itself such a plan, the sponsoring employers are related to the entity;
  - the entity is controlled or jointly controlled by a person identified in (a); and
  - a person identified in (a)(i) has significant influence over that entity or is a member of the management of that entity (or its controlling entity).

The standard furthermore states that related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

The standard elaborates on the definitions and identification of:

- Close member of the family of a person;
- Management;
- Related parties;
- Remuneration; and
- Significant influence

The standard sets out the requirements, inter alia, for the disclosure of:

- Control;
- Related party transactions; and
- Remuneration of management

The effective date of the standard is for years beginning on or after 01 April 2013.

The municipality expects to adopt the standard for the first time in the 2014 unaudited financial statements.

It is unlikely that the standard will have a material impact on the municipality's unaudited financial statements.

## Notes to the Unaudited Financial Statements

| Figures in Rand | 30 June 2014 | 30 June 2013 |
|---|---|---|

### 3. Change in accounting policies and prior year adjustments

The following adjsutments were made to amounts previously reported in the annual financial statements as a result of the correction of prior year errors.

The correction of the error(s) results in adjustments as follows:

| | 30 June 2014 | 30 June 2013 |
|---|---|---|
| **Adjustment to 2012/13 accumulated surplus** | | |
| Accumulated surplus previously reported as at 30 June 2013 | - | 136,644,756 |
| Correction of rebates | - | (2,953) |
| Correction of general expenses previously capitalised | - | (251,941) |
| **Accumulated surplus restated 01 July 2013** | **-** | **136,389,862** |
| **Surplus for the year** | | |
| Balance previously reported | - | 51,144,162 |
| Correction of general expenses previously capitalised | - | (251,941) |
| **Surplus for the year restated 30 June 2014** | **-** | **50,892,221** |

| Figures in Rand | 30 June 2014 | 30 June 2013 |
|---|---|---|

## 4. Retirement benefits

### Defined benefit plan

### Post retirement medical aid plan

'The municipality operates an accredited medical aid scheme. The post retirement medical aid plan, to which 2014: 1 member (2013: 1 members) belongs, consists of the Key Health Medical Scheme. Pensioners continue on the option they belonged to on the day of their retirement.

The independent valuers, Alexander Forbes (Pty) Ltd, carried out a statutory valuation on 30 June 2014
The principal actuarial assumptions used were as follows:

| | | |
|---|---|---|
| Discount rate per annum | 8.10% | 7.60% |
| Health care cost inflation rate | 8.20% | 8.00% |
| Benchmark inflation (equal to salary inflation) | 7.70% | 7.50% |

| | | |
|---|---|---|
| **The amounts recognised in the statement of financial position were** | | |
| Post-Retirement Medical Obligation | 187,824 | 185,058 |

| | | |
|---|---|---|
| **Reconciliation of the movement in the liability** | | |
| Opening balance | 185,058 | 573,653 |
| Interest cost | 13,235 | 42,381 |
| Expected employer benefit payments | (20,537) | (50,530) |
| Acturial (gain) / loss | 10,068 | (380,446) |
| | **187,824** | **185,058** |

| | | |
|---|---|---|
| **Net expense recognised in the statement of financial performance** | | |
| Interest cost | 13,235 | 42,381 |
| Expected employer benefits payments | (20,537) | (50,530) |
| Acturial (gains)/ losses | 10,068 | (380,446) |
| | **2,766** | **(388,595)** |

### Post retirement pension plan

The Municipality's personnel are members of one of the Natal Joint Municipal Pension (NJMPF) retirement funds, namely the Superannuation, Retirement and Provident Funds. As the aforementioned funds are multi-employer funds, the allocation of any surplus/deficit to individual municipalities cannot be determined.

Furthermore disclosure of further details such as actuarial assumptions, cannot be attributed to any specific municipality and is of no relevance to users of the Municipality's financial statements. As the required disclosure information cannot be obtained the funds are all treated as defined contribution plans.

An independent valuer carries out a statutory valuation of the NJMPF on a triennial basis and an interim valuation on an annual basis. The 2014 interim valuations have not yet been released.

**Superannuation Fund**
The latest statutory valuation of the Superannuation Fund (defined benefit) as at 31 March 2013 concluded that:
The Fund's liabilities for service to the valuation date was 97.9% (2012: 96%) funded on the discounted cash flow method.
The Fund's financial position has improved from the previous statutory valuation.

At the valuation date:
The memorandum account in respect of pensioners was fully funded.

## Notes to the Unaudited Financial Statements

| Figures in Rand | 30 June 2014 | 30 June 2013 |
|---|---|---|

### 4. Retirement benefits (continued)

There was a deficit in respect of active members. A surchage of 9.5% of pensionable salaries is payable for a period of 8 years with effect from 01 August 2012 to meet the deficit.

The contribution rate being paid at the previous statutory valuation date was not sufficient to cover the contribution rate required for future service, showing a shortfall of 3.63% of pensionable salaries. The recommendation is to increase the employer's basic contribution from 18% to 21.63% (18.00% plus 3.63% with effect from 1 August 2012).

**Retirement fund**

The latest statutory valuation of the Retirement Fund (defined benefit) as at 31 March 2013 reflected:
The memorandum account in respect of pensioners was fully funded
Based on the valuation assumptions applied in 2000, the Fund was fully funded, however based on revised assumptions the Funds liabilities for the contributory members exceeded the value of the assets and an extension of the surcharge for another 5 years would be necessary to return the funding level to 100%.

The statutory acturial valuation carried out on the retirement fund as at 31 March 2013 reflected:
The Fund is 93.1% (2012: 90.6%) funded as at the valuation date at the overall level. The pensioner liabilities are fully funded and the liabilities in respect of active members are 86.0% funded. The Funds financial position has improved from the previous statutory valuation.

At the valuation date:
The memorundum account in respect of pensioners was fully funded.

There was a deficit in respect of active members. To meet the deficit, it is recommended that the surcharge of 17% be increased to 17.5% of pensionable salaries and that the repayment period be extended from 5 to 8 years at which time the deficit is expected to be fully funded.
The required contribution rate for the future service benefits for active members exceeded the contribution rate payable by 0.27% (2012:4.72%) of pensionable salaries.

**Provident Fund**

The latest statutory valuation of the Provident Fund as at 31 March 2009 and the interim valuation as at 31 March 2013 revealed that the fund was in a sound financial position.

**Long service awards**

The independent valuers, Alexander Forbes, carried out a statutory valuation on the long service leave benefit on 30 June 2013. This is the first year that this actuarial valuation has been performed in accordance with Council Resolution in August 2012.

The principal actuarial assumptions used were as follows:

| | | |
|---|---|---|
| Discount rate per annum | 8.40% | 8.25% |
| Inflation rate per annum | 6.20% | 5.50% |
| Salary increase rate per annum | 8.20% | 6.50% |
| Active members | 120 | 108 |
| Salary weighted average age | - | 38.8 years |
| Salary weighted past service | 7.6 years | 7.4 years |

**The amounts recognised in the statement of financial position**

| | | |
|---|---|---|
| Post-Retirement Gratuity Obligation | 1,685,990 | 1,444,990 |

**Reconciliation of the movement in liability**

| Figures in Rand | 30 June 2014 | 30 June 2013 |
|---|---|---|
| **4. Retirement benefits (continued)** | | |
| Opening balance | 1,444,990 | - |
| Past service cost | - | 1,216,000 |
| Interest cost | 132,000 | 110,000 |
| Expected employer benefit payments | 192,000 | 170,000 |
| Actuarial (gain)/ loss | 79,000 | 56,000 |
| less municipality paid benefits | (162,000) | (107,010) |
| | **1,685,990** | **1,444,990** |
| **Net expense recognised in the statment of financial performance** | | |
| Past service cost | - | 1,216,000 |
| Interest cost | 132,000 | 110,000 |
| Expected employer benefits payments | 30,000 | 170,000 |
| Acturial (gains)/ losses | 79,000 | 56,000 |
| | **241,000** | **1,552,000** |
| **In conclusion** | | |
| **Statement of financial position obligation for** | | |
| Post-Retirement Medical Benefits | 187,824 | 185,058 |
| Long service award | 1,685,990 | 1,444,990 |
| | **1,873,814** | **1,630,048** |
| **Statement of financial performance obligation for** | | |
| Post-employment medical benefits | 2,766 | (388,595) |
| Long service award | 241,000 | 1,552,000 |
| | **243,766** | **1,163,405** |
| **Post-employment medical benefits (gains) and losses** | | |
| Post-employment medical benefits (gains) and losses | 10,068 | (380,446) |
| Long service awards loss | 79,000 | 56,000 |
| | **89,068** | **(324,446)** |

| Figures in Rand | 30 June 2014 | 30 June 2013 |
|---|---|---|

### 5. Finance lease obligation

| | | |
|---|---|---|
| **Minimum lease payments due** | | |
| - within one year | 4,821,627 | 3,336,824 |
| - in second to fifth year inclusive | 14,775,933 | 6,437,234 |
| - later than five years | - | - |
| | 19,597,560 | 9,774,058 |
| less: future finance charges | (4,150,970) | (2,010,364) |
| **Present value of minimum lease payments** | **15,446,590** | **7,763,694** |
| | | |
| **Present value of minimum lease payments due** | | |
| - within one year | 3,250,706 | 2,641,449 |
| - in second to fifth year inclusive | 12,195,884 | 5,122,246 |
| - later than five years | - | - |
| | **15,446,590** | **7,763,695** |

The average lease term was 3-5 years and the effective borrowing rate was between 9% to 15% (2013: 9% to 15.5%)

Interest rates are either fixed at the contract date or signed as non fixed depending on the contract circumstances. All leases have fixed repayments and no arrangements have been entered into for contingent rent.

The Municipality's obligations under finance leases are secured by the lessor's charge over the leased assets. The assets leased include vehicles and photocopiers.

### 6. Provisions

**Reconciliation of provisions - 2014**

| | | |
|---|---|---|
| **Non current liabilities** | | |
| Environmental rehabilitation | 3,623,046 | 2,637,020 |

| | Opening Balance | Movement | Total |
|---|---|---|---|
| Environmental rehabilitation | 2,637,020 | 986,026 | 3,623,046 |

**Reconciliation of provisions - 2013**

| | Opening Balance | Movement | Total |
|---|---|---|---|
| Environmental rehabilitation | 2,357,232 | 279,788 | 2,637,020 |

The landfill provision represents management's best estimate of the Municipality's liability.

It relates to the present value of the costs involved to rehabilitate the land and move the landfill to a new site in 2 years time. The prime rate of 9% has been used as the discounting factor in the provision.

| Figures in Rand | 30 June 2014 | 30 June 2013 |
|---|---|---|

### 7. Operating lease liability

| | | |
|---|---|---|
| **Current liabilities** | | |
| Operating lease accrual | - | 1,147,557 |

| | | |
|---|---|---|
| No later than one year | - | 1,243,119 |
| Later than 1 year and no later than 5 years | - | 4,972,476 |
| Later than 5 years | - | 2,486,238 |
| **Total future cashflows** | **-** | **8,701,834** |

The Municipality previously occupied its admistrative building, by way of an operating lease. The Municipality purchased this building in the 2013/14 financial year, which has resulted in the the reversal of the effects straightlining the operating leases in the accounting records. The building is included in the Municipality's fixed asset register.

### 8. Unspent conditional grants and receipts

**Unspent conditional grants and receipts comprises of:**

| | | |
|---|---|---|
| **Unspent conditional grants and receipts** | | |
| MPCC grant | 7,882 | 152,577 |
| Gljima - KZN Baseline study grant | 46,438 | 46,438 |
| Spatial planning grant | 7,088 | 32,848 |
| Refuse disposal site grant | - | 1,058,671 |
| Small town rehab grant | - | 9,058,083 |
| Pound grant | 1,371 | 143,755 |
| Disaster relief grant | 57,833 | 1,860,800 |
| Department of sports grant | 168,807 | 150,000 |
| NER - electrification of households | - | 3,571,301 |
| Housing projects | 10,136,551 | 10,136,551 |
| Local Government SETA | 294,300 | - |
| | **10,720,270** | **26,211,024** |

See note 20 for reconciliation of grants from other spheres of government.

### 9. Trade and other payables from exchange transactions

| | | |
|---|---|---|
| Unallocated deposits | 129,341 | 129,340 |
| Leave pay accrual | 2,658,319 | 1,366,499 |
| Sundry Payables | 1,297,168 | 775,474 |
| Retention Creditor | 2,760,589 | 2,698,734 |
| Trade creditors | 6,044,782 | 1,882,714 |
| Salary control | 74,890 | 74,640 |
| Unallocated receipts | 488,920 | 476,607 |
| Payments received in advance | 967,639 | 941,697 |
| National Treasury payable - MIG Grant | - | 4,770,000 |
| Building purchase payables | 7,521,779 | - |
| | **21,943,427** | **13,115,705** |

### 10. VAT receivable

| | | |
|---|---|---|
| VAT receivable | 3,142,357 | 2,785,692 |

## Notes to the Unaudited Financial Statements



### 11. Property, plant and equipment

| | 2014 | | | 2013 | | |
|---|---|---|---|---|---|---|
| | **Cost / Valuation** | **Accumulated depreciation and accumulated impairment** | **Carrying value** | **Cost / Valuation** | **Accumulated depreciation and accumulated impairment** | **Carrying value** |
| Land | 3,561,868 | - | 3,561,868 | 2,312,868 | - | 2,312,868 |
| Buildings | 57,357,752 | (10,029,652) | 47,328,100 | 33,504,130 | (8,377,990) | 25,126,140 |
| Buildings - Assets under construction | 22,709,378 | - | 22,709,378 | 3,799,745 | - | 3,799,745 |
| Plant and machinery | 1,671,966 | (845,184) | 826,782 | 1,408,206 | (691,248) | 716,958 |
| Motor Vehicles | 4,844,519 | (1,286,507) | 3,558,012 | 1,573,830 | (1,082,812) | 491,019 |
| Office equipment | 3,002,469 | (1,127,937) | 1,874,532 | 2,143,036 | (769,545) | 1,373,490 |
| IT Equipment | 2,579,868 | (1,592,201) | 987,667 | 2,241,440 | (1,353,331) | 888,110 |
| Infrastructure | 80,035,931 | (19,213,117) | 60,822,814 | 64,594,886 | (15,527,704) | 49,067,181 |
| Infrastructure - Assets under construction | 18,817,585 | - | 18,817,585 | 5,298,925 | - | 5,298,925 |
| Community | 2,041,161 | (1,365,866) | 675,295 | 1,881,691 | (1,074,718) | 806,973 |
| Leased Assets | 24,225,009 | (9,065,275) | 15,159,734 | 14,697,971 | (6,109,784) | 8,588,186 |
| **Total** | **220,847,506** | **(44,525,739)** | **176,321,767** | **133,456,728** | **(34,987,132)** | **98,469,595** |

## Notes to the Unaudited Financial Statements

| Figures in Rand | 30 June 2014 | 30 June 2013 |
|---|---|---|

### 11. Property, plant and equipment (continued)

**Reconciliation of property, plant and equipment - 2014**

| | Opening balance | Additions movable assets | Additions assets under construction | Newly identified assets | Disposals | Transfers | Other changes, movements | Depreciation | Impairment loss | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| Land | 2,312,868 | - | - | - | (1,000) | 1,250,000 | - | - | - | 3,561,868 |
| Buildings | 25,126,140 | - | - | - | - | 23,853,622 | - | (1,647,262) | (4,400) | 47,328,100 |
| Buildings - Assets under construction | 3,799,745 | - | 45,980,043 | - | - | (27,062,410) | (8,000) | - | - | 22,709,378 |
| Plant and machinery | 716,958 | 171,773 | - | 60,637 | - | 31,350 | - | (153,907) | (29) | 826,782 |
| Motor vehicles | 491,019 | 3,437,664 | - | - | (25,361) | - | - | (345,310) | - | 3,558,012 |
| Office Equipment | 1,373,490 | 557,536 | - | 126,897 | - | 175,000 | (40,473) | (317,044) | (874) | 1,874,532 |
| IT Equipment | 888,110 | 326,846 | - | 11,580 | - | - | 40,473 | (273,115) | (6,227) | 987,667 |
| Infrastructure | 49,067,181 | - | - | - | - | 15,441,045 | - | (3,485,075) | (200,337) | 60,822,814 |
| Infrastructure - Assets under construction | 5,298,925 | - | 27,465,505 | - | - | (13,748,077) | (198,768) | - | - | 18,817,585 |
| Community | 806,973 | 100,000 | - | - | - | 59,470 | - | (291,148) | - | 675,295 |
| Leased Assets | 8,588,188 | 9,527,038 | - | - | - | - | - | (2,955,492) | - | 15,159,734 |
| | **98,469,597** | **14,120,857** | **73,445,548** | **199,114** | **(26,361)** | **-** | **(206,768)** | **(9,468,353)** | **(211,867)** | **176,321,767** |

## Notes to the Unaudited Financial Statements

| Figures in Rand | 30 June 2014 | 30 June 2013 |
| --- | --- | --- |

### 11. Property, plant and equipment (continued)

**Reconciliation of property, plant and equipment - 2013**

| | Opening balance | Additions | Disposals | Transferred to assets held for sale | Transfers | Other changes, movements | Depreciation | Impairment loss | Total |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Land | 1,851,112 | 500,000 | (38,244) | - | - | - | - | - | 2,312,868 |
| Buildings | 15,181,226 | - | - | - | 10,593,595 | - | (648,681) | - | 25,126,140 |
| Buildings - Assets under construction | 4,964,360 | 8,120,992 | - | - | (9,033,666) | (251,941) | - | - | 3,799,745 |
| Plant and machinery | 502,326 | 469,749 | (122,991) | (53,767) | - | 28,080 | (106,439) | - | 716,958 |
| Motor Vehicles | 720,706 | - | (165,942) | - | - | - | (63,745) | - | 491,019 |
| Office Equipment | 891,393 | 759,943 | - | (25,197) | - | (28,080) | (215,029) | (9,539) | 1,373,491 |
| IT Equipment | 704,080 | 421,946 | - | (6,731) | - | - | (229,389) | (1,796) | 888,110 |
| Infrastructure | 29,698,544 | - | (2,134,084) | - | 23,834,750 | - | (1,228,196) | (1,103,833) | 49,067,181 |
| Infrastructure - Assets under construction | 5,700,399 | 24,993,205 | - | - | (25,394,679) | - | - | - | 5,298,925 |
| Community | 1,161,316 | - | - | - | - | - | (354,343) | - | 806,973 |
| Leased Assets | 4,227,497 | 5,540,625 | (52,660) | - | - | - | (1,127,276) | - | 8,588,186 |
| | **65,602,959** | **40,806,460** | **(2,513,921)** | **(85,695)** | **-** | **(251,941)** | **(3,973,349)** | **(1,115,168)** | **98,469,596** |

**Pledged as security**

No items of property,plant and equipment have been pledged as security or encumbered in any way.

**Assets subject to finance lease (Net carrying amount)**

| | | |
| --- | --- | --- |
| Motor vehicles | 14,240,464 | 7,486,253 |
| IT equipment | 271,891 | - |
| Photocopiers | 919,271 | 1,104,744 |
| | **15,431,626** | **8,590,997** |

| Figures in Rand | 30 June 2014 | 30 June 2013 |
|---|---|---|

### 12. Intangible assets

| | 2014 | | | 2013 | | |
|---|---|---|---|---|---|---|
| | **Cost / Valuation** | **Accumulated amortisation and accumulated impairment** | **Carrying value** | **Cost / Valuation** | **Accumulated amortisation and accumulated impairment** | **Carrying value** |
| Computer software, other | 910,483 | (393,077) | 517,406 | 323,394 | (267,003) | 56,391 |

**Reconciliation of intangible assets - 2014**

| | **Opening balance** | **Additions** | **Amortisation** | **Total** |
|---|---|---|---|---|
| Computer software, other | 56,391 | 587,089 | (126,074) | 517,406 |

**Reconciliation of intangible assets - 2013**

| | **Opening balance** | **Amortisation** | **Total** |
|---|---|---|---|
| Computer software, other | 84,537 | (28,146) | 56,391 |

**Pledged as security**

The legal title related to all intangible assets vests in Okhahlamba Municipality and has not been restricted in any manner.

**Other information**

The Municipality does not have any fully amortised intangible assets that are still in use.
The Municipality does not have any intangible assets with indefinite lives

### 13. Discontinued operations or disposal groups or non-current assets held for sale

| | | |
|---|---|---|
| Property, plant and equipment - Clinic assets | - | 85,695 |

| | Cost | Accumulated depreciation | Total | Cost | Accumulated depreciation | Total |
|---|---|---|---|---|---|---|
| Clinic assets | - | - | - | 142,541 | 56,847 | 85,694 |
| Total | - | - | - | 142,541 | 56,847 | 85,694 |

| **Reconciliation of non current assets held for discontinued operations - 2014** | Opening balance | Disposal | Total |
|---|---|---|---|
| Clinic assets to be transferred | 85,694 | (85,694) | - |
| | **85,694** | **(85,694)** | **-** |

| **Reconciliation of non current assets held for discontinued operations - 2013** | Opening balance | Transfers from PPE | Total |
|---|---|---|---|
| Clinic assets to be transferred | - | 85,694 | 85,694 |
| | **-** | **85,694** | **85,694** |

A service level agreement was signed with the Department of Health to transfer the clinic operations, staff, assets and liabilities from the municipality to the Department of Health.

This agreement was effective from 1 July 2012, when all staff and liabilities were transferred. The assets have been transferred in the 2013/2014 financial year.

## Notes to the Unaudited Financial Statements

| Figures in Rand | 30 June 2014 | 30 June 2013 |
|---|---|---|

### 14. Consumer debtors

| | | |
|---|---|---|
| **Gross balances** | | |
| Rates | 17,749,896 | 19,429,523 |
| Refuse | 510,902 | 369,158 |
| Sundry | 2,973,596 | 264,568 |
| | **21,234,394** | **20,063,249** |

| | | |
|---|---|---|
| **Less: Provision for debt impairment** | | |
| Rates | (6,586,819) | (11,120,261) |
| Water | - | - |
| Refuse | (158,329) | (201,999) |
| Sundry | (1,015,282) | (195,105) |
| | **(7,760,430)** | **(11,517,365)** |

| | | |
|---|---|---|
| **Net balance** | | |
| Rates | 11,163,077 | 8,309,262 |
| Water | - | - |
| Refuse | 352,573 | 167,159 |
| Sundry | 1,958,314 | 69,463 |
| | **13,473,964** | **8,545,884** |

| | | |
|---|---|---|
| **Rates** | | |
| Current (0 -30 days) | 2,641,665 | 1,437,503 |
| 31 - 60 days | (47,739) | 1,059,417 |
| 61 - 90 days | 461,557 | 870,619 |
| 91 - 120 days | 765,721 | 785,501 |
| 121 - 365 days | 6,717,128 | 15,276,483 |
| > 365 days | 7,211,564 | - |
| | **17,749,896** | **19,429,523** |

| | | |
|---|---|---|
| **Refuse** | | |
| Current (0 -30 days) | 49,526 | 25,459 |
| 31 - 60 days | (20,804) | 14,096 |
| 61 - 90 days | 6,260 | 10,420 |
| 91 - 120 days | 10,713 | 9,590 |
| 121 - 365 days | 80,495 | 309,593 |
| > 365 days | 384,712 | - |
| | **510,902** | **369,158** |

| | | |
|---|---|---|
| **Other (sundry)** | | |
| Current (0 -30 days) | (9,186) | (941,697) |
| 31 - 60 days | 265,442 | 2,029 |
| 61 - 90 days | 236,275 | 1,495 |
| 91 - 120 days | 523,197 | 1,074 |
| 121 - 365 days | 445,555 | 1,201,667 |
| > 365 days | 1,512,313 | - |
| | **2,973,596** | **264,568** |

| | | |
|---|---|---|
| **Reconciliation of allowance for impairment** | | |
| Balance at beginning of the year | (11,517,365) | (8,616,732) |
| Bad debts written off | 8,673,710 | 536,674 |
| Contributions to provision | (4,916,775) | (3,437,307) |
| | **(7,760,430)** | **(11,517,365)** |

| Figures in Rand | 30 June 2014 | 30 June 2013 |
|---|---|---|

### 14. Consumer debtors (continued)

**Consumer debtors pledged as security**

Consumer debtors have not been pledged as security or encumbered in any way.

**Consumer debtors past due but not impaired**

Consumer debtors which show a history of payment are not considered to be impaired.
At 30 June 2014 R 748 949, (30 June 2013: R 643 139) were past due but not impaired.

The ageing of amounts past due but not impaired is as follows:

| | | |
|---|---|---|
| Amounts not past due or impaired | 2,768,504 | 1,066,201 |
| Amounts past due but not impaired | 748,949 | 643,139 |
| Amounts past due and impaired | 17,716,941 | 18,353,909 |
| | **21,234,394** | **20,063,249** |

**Consumer debtors impaired**

As of 30 June 2014 consumer debtors of R17 716 941 (2013: R18 353 909) were impaired and provided for.
The amount of the provision was R7 760 430 as of 30 June 2014 (2013: R11 517 365).

### 15. Other receivables from exchange transactions

| | | |
|---|---|---|
| Sundry services (sundry debtors) | 48,696 | 48,696 |
| Accrued Interest | 145,815 | 77,018 |
| Department of Economic Development and Tourism Receivable | 1,792,309 | - |
| Sale of asset Receivable | 894,900 | - |
| Nquthu Municipality Receivable | 179,503 | - |
| | **3,061,223** | **125,714** |

Payment has been received in July 2014 for the Department of Economic Development and Tourism receivable and the Sale of asset receivable. Payment was received for the Nquthu Municipality receivable in August 2014.

### 16. Cash and cash equivalents

Cash and cash equivalents consist of: cash on hand, bank balances as well as short term deposits.

| | | |
|---|---|---|
| Cash on hand | 2,096 | 5,100 |
| Bank balances | 6,223,531 | 34,520,280 |
| Short-term deposits | 36,572,561 | 44,303,520 |
| | **42,798,188** | **78,828,900** |

## Notes to the Unaudited Financial Statements

| Figures in Rand | 30 June 2014 | 30 June 2013 |
|---|---|---|

### 16. Cash and cash equivalents (continued)

**The municipality had the following bank accounts**

| Account number / description | Bank statement balances | | Cash book balances | |
|---|---|---|---|---|
| | 30 June 2014 | 30 June 2013 | 30 June 2014 | 30 June 2013 |
| First National Bank: 51660362710 : Cheque Account | 6,223,531 | 34,517,748 | 6,223,531 | 34,517,748 |
| Absa Bank: 4062409321 : Cheque Account | - | 2,532 | - | 2,532 |
| First National Bank: 62241428798 : Money Market | 46,527 | 20,000 | 46,527 | 20,000 |
| ABSA Bank: 9147522394 : Call Account | - | 161,118 | - | 161,118 |
| ABSA Bank: 9127331781 : Call Account | - | 147,245 | - | 147,245 |
| ABSA Bank: 9147523015 : Call Account | - | 76,169 | - | 76,169 |
| ABSA Bank: 9147523201 : Call Account | - | 17,172 | - | 17,172 |
| ABSA Bank: 9147523324 : Call Account | - | 54,060 | - | 54,060 |
| ABSA Bank: 9129607037 : Call Account | - | 30,830 | - | 30,830 |
| ABSA Bank: 9143291852 : Call Account | - | 13,340 | - | 13,340 |
| ABSA Bank: 9143291690 : Call Account | - | 70,360 | - | 70,360 |
| ABSA Bank: 9143291420 : Call Account | - | 118,240 | - | 118,240 |
| ABSA Bank: 9064276678 : Call Account | - | 8,291 | - | 8,291 |
| ABSA Bank: 9129606316 : Call Account | - | 629,224 | - | 629,224 |
| ABSA Bank: 9143117072 : Call Account | - | 8,954 | - | 8,954 |
| ABSA Bank: 9143294193 : Call Account | - | 167,029 | - | 167,029 |
| ABSA Bank: 9188335792 : Call Account | - | 12,280 | - | 12,280 |
| ABSA Bank: 9091141107 : Call Account | - | 8,623 | - | 8,623 |
| First National Bank: 62051600932 : Call Account | 29,120 | 28,831 | 29,120 | 28,831 |
| First National Bank: 62053113230 : Call Account | 544,574 | 532,069 | 544,574 | 532,069 |
| First National Bank: 61166894638 : Call Account | 906,953 | 8,906,953 | 906,953 | 8,906,953 |
| First National Bank: 62228422060 : Money Market | 1,466,117 | 1,411,494 | 1,466,117 | 1,411,494 |
| First National Bank 74386656746 : Fixed Deposits | 8,678,892 | 8,225,246 | 8,678,892 | 8,225,246 |
| First National Bank 74386660490: Fixed Deposits | 13,043,467 | 12,343,348 | 13,043,467 | 12,343,348 |
| Investec: 1100463208450 | - | 11,312,644 | - | 11,312,644 |
| Investec : 1100463208500 | 11,856,911 | - | 11,856,911 | - |
| **Total** | **42,796,092** | **78,823,800** | **42,796,092** | **78,823,800** |

# Notes to the Unaudited Financial Statements

| Figures in Rand | 30 June 2014 | 30 June 2013 |
|---|---|---|

## 17. Revenue

| | | |
|---|---|---|
| Rendering of services | 183,824 | 128,932 |
| Property rates | 22,151,702 | 15,183,376 |
| Service charges | 353,995 | 354,502 |
| Property rates - penalties imposed and collection charges | 3,075,820 | 2,469,597 |
| Rental of facilities and equipment | 4,386 | 22,350 |
| Income from agency services | 527,442 | 613,590 |
| Subsidies | 1,122,991 | 2,011,701 |
| Fines | 577,407 | 151,484 |
| Government grants & subsidies | 123,104,868 | 100,570,901 |
| Other Revenue | 655,752 | 373,126 |
| Donations Received | - | - |
| Interest received | 3,529,363 | 2,535,437 |
| Public contributions and donations | 88,731 | 62,052 |
| | **155,376,281** | **124,477,048** |

**The amount included in revenue arising from exchanges of goods or services are as follows:**

| | | |
|---|---|---|
| Rendering of services | 183,824 | 128,932 |
| Service charges | 353,995 | 354,502 |
| Rental of facilities and equipment | 4,386 | 22,350 |
| Income from agency services | 527,442 | 613,590 |
| Interest received | 3,529,363 | 2,535,437 |
| Other revenue | 655,752 | 373,126 |
| | **5,254,762** | **4,027,937** |

**The amount included in revenue arising from non-exchange transactions is as follows:**

| | | |
|---|---|---|
| Property rates | 22,151,702 | 15,183,376 |
| Property rates - penalties imposed and collection charges | 3,075,820 | 2,469,597 |
| Fines | 577,407 | 151,484 |
| Subsidies | 1,122,991 | 2,011,701 |
| Government grants | 123,104,868 | 100,570,901 |
| Public contributions and donations | 88,731 | 62,052 |
| | **150,121,519** | **120,449,111** |

| Figures in Rand | 30 June 2014 | 30 June 2013 |
|---|---|---|

## 18. Property rates

### Rates received

| | | |
|---|---|---|
| Residential | 7,029,020 | 2,386,900 |
| Commercial | 2,702,654 | 10,120,451 |
| State | 3,766,422 | 592,665 |
| Agricultural | 4,902,270 | 7,224,566 |
| Municipal | 314,054 | 156,778 |
| Vacant Land | - | 454,084 |
| Other | 9,164,231 | 528,604 |
| Communual land | 1,942,380 | - |
| Property rates - rebates | (7,669,329) | (6,280,672) |
| | **22,151,702** | **15,183,376** |

### Valuations

| | | |
|---|---|---|
| Residential | 1,058,364,000 | 1,380,429,687 |
| State | 570,670,012 | 7,240,000 |
| Commercial | 409,493,000 | 649,328,636 |
| Municipal | 47,584,000 | 25,372,128 |
| Small holdings and farms | 2,989,189,000 | 2,233,459,215 |
| Communal land | 294,300,000 | 604,924,878 |
| Multi-purpose | - | 54,726,260 |
| Vacant Land (Other than residential property) | - | 85,926,280 |
| Public Worship | 17,584,000 | 18,663,292 |
| Public benefit Organisations | 71,777,000 | 28,004,000 |
| Public service Infrustructure | 386,053,100 | 7,547,734 |
| Schools | - | 105,667,496 |
| Privately developed estate | 738,375,000 | - |
| Tourism | 518,797,000 | - |
| | **7,102,186,112** | **5,201,289,606** |

Valuations on land and buildings are performed every 5 years. The last general valuation came into effect on 1 July 2013.

Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

Assessment rates are determined by applying the following cents in the rand on the market valuation:

| | | |
|---|---|---|
| Agriculture properties used for agriculture purposes | 0.00164 | 0.00155 |
| Business and commercial properties | 0.00660 | 0.0062 |
| Industrial properties | 0.00660 | 0.0062 |
| Municipal properties, land reform, informal settlements, public worship | 0.00660 | 0.0062 |
| Public service infrastructure and public benefit organisations | 0.00164 | 0.00155 |
| Residential properties | 0.00660 | 0.0062 |
| Vacant land (Residential) | - | 0.0062 |

| | | |
|---|---|---|
| Rebates are granted to: | | |
| Agricultural & Agricultural small holding | 30% | 0% |
| Public benefit organisations, schools, places of worship, communal land and municipal property (Excemption allowed) | 0% | 100% |
| Private Developed Estates | 30% | 30% |
| Public Service Infrastructure | 0% | 30% |
| Residential small holding & Rural residential | 30% | 30% |

# Notes to the Unaudited Financial Statements

| Figures in Rand | 30 June 2014 | 30 June 2013 |
| --- | --- | --- |

### 18. Property rates (continued)

The first R15 000 of the valuation of residential properties are exempt from the calculation of rates.
Public Service Infrastructure are permitted a 30% impermissable exemption.

Khethani residents are exempt from Rates and services for 2013/2014 as per the approved policy.

Pensioners receive a 50% on application.

Rates are levied on an annual basis over 12 monthly installments with the final date for payment being 30 July 2014.

Interest at a fixed rate of 18% per annum (2013: 18%) is levied on rates outstanding two months after due date.

### 19. Other revenue

| | | |
| --- | --- | --- |
| Business Licenses | 10,488 | 5,452 |
| Fees for photocopies and subscriptions | 22,678 | 32,816 |
| Tourism Exhibitions | 71,620 | - |
| Rates Clearance | 28,014 | 14,777 |
| Sundry Revenue | 300,706 | 178,948 |
| Tenders | 203,546 | 121,250 |
| Valuation Roll | 3,556 | - |
| Reduction in leave contribution | - | 19,883 |
| Taxi rank fees | 15,144 | - |
| | **655,752** | **373,126** |

| Figures in Rand | 30 June 2014 | 30 June 2013 |
|---|---|---|

### 20. Government grants

| | | |
|---|---|---|
| Equitable share | 69,128,921 | 62,494,000 |
| Finance management grant | 1,650,000 | 1,667,179 |
| Performance management system grant | - | 1,500 |
| MPCC grant | 144,696 | 462,972 |
| MSIG | 890,000 | 988,441 |
| Municipal infrsutructure grant (MIG) | 22,019,683 | 24,701,337 |
| Refuse disposal grant | 1,058,671 | 154,094 |
| Cemetery grant | - | 68,692 |
| IDP grant | - | 752 |
| Small town rehab grant | 22,480,277 | 4,630,284 |
| Pound grant | 142,384 | 856,245 |
| NER- Electricifation of households | - | 3,692,142 |
| VAT recovery | 2,630,317 | 853,263 |
| Disaster relief grant | 1,802,967 | - |
| Department of sports and recreation grant | 131,193 | - |
| Expanded Public Works Program | 1,000,000 | - |
| Spatial planning grant | 25,760 | - |
| Government grant (operating) 18 | - | - |
| Distaster relief grant | - | - |
| | **123,104,869** | **100,570,901** |

**Equitable share**

| | | |
|---|---|---|
| Balance unspent at beginning of year | - | - |
| Current-year receipts | 69,128,921 | 62,494,000 |
| Conditions met - transferred to revenue | (69,128,921) | (62,494,000) |
| | - | - |

In terms of the Constitution , this grant is used to offset operational expenses.

**Finance management grant (FMG)**

| | | |
|---|---|---|
| Balance unspent at beginning of year | - | 167,179 |
| Current-year receipts | 1,650,000 | 1,500,000 |
| Conditions met - transferred to revenue | (1,650,000) | (1,667,179) |
| VAT recovery | - | - |
| | - | - |

This grant was used for implementation of MFMA, finance reforms and payment of intern's salaries. No funds were withheld.

**Performance management system grant**

| | | |
|---|---|---|
| Balance unspent at beginning of year | - | 1,500 |
| Current-year receipts | - | - |
| Conditions met - transferred to revenue | - | (1,500) |
| | - | - |

This grant was used to develop and implement the performance management system. No funds were withheld.

# Notes to the Unaudited Financial Statements

| Figures in Rand | 30 June 2014 | 30 June 2013 |
|---|---|---|

## 20. Government grants (continued)

### Multi purpose community centre grant (MPCC)

| | | |
|---|---|---|
| Balance unspent at beginning of year | 152,577 | 615,549 |
| Current-year receipts | - | - |
| Conditions met - transferred to revenue | (144,695) | (462,972) |
| **Conditions still to be met - remain liabilities (see note 8)** | **7,882** | **152,577** |

The grant was used to pay for the security and maintenance expenses of the multi purpose community centre. No funds were withheld.

### Gijima KZN - Baseline study grant

| | | |
|---|---|---|
| Balance unspent at beginning of year | 46,438 | 46,438 |
| Current-year receipts | - | - |
| Conditions met - transferred to revenue | - | - |
| **Conditions still to be met - remain liabilities (see note 8)** | **46,438** | **46,438** |

The grant is used for the local economic development study. No funds were withheld.

### Municipal systems infrustructure grant

| | | |
|---|---|---|
| Balance unspent at beginning of year | - | 188,441 |
| Current-year receipts | 890,000 | 800,000 |
| Conditions met - transferred to revenue | (890,000) | (988,441) |
| | - | - |

This grant was used for the development of the valuation roll. No funds were withheld.

### Spatial planning grant

| | | |
|---|---|---|
| Balance unspent at beginning of year | 32,848 | 32,848 |
| Current-year receipts | - | - |
| Conditions met - transferred to revenue | (25,760) | - |
| **Conditions still to be met - remain liabilities (see note 8)** | **7,088** | **32,848** |

This grant is for the development and improvement of the Municipality's spatial planning. No funds were withheld.

### Municipal infrustructure grant

| | | |
|---|---|---|
| Balance unspent at beginning of year | - | 11,821,600 |
| Current-year receipts | 24,650,000 | 23,233,000 |
| Conditions met - transferred to revenue | (22,019,683) | (24,701,337) |
| Adjustments - funds withheld | - | (9,500,000) |
| VAT Recovery | (2,630,317) | (853,263) |
| | - | - |

This grant is for the implementation of projects approved by MIG. Funds were withheld in the 2012/13 financial year. No funds were withheld in the 2013/13 financial year.

| Figures in Rand | 30 June 2014 | 30 June 2013 |
| --- | --- | --- |

### 20. Government grants (continued)

**Refuse disposal site grant**

| | | |
| --- | --- | --- |
| Balance unspent at beginning of year | 1,058,671 | 1,212,765 |
| Current-year receipts | - | - |
| Conditions met - transferred to revenue | (1,058,671) | (154,094) |
| Other | - | - |
| | **-** | **1,058,671** |

This grant is for the feasibility study and acquisition of the land for the refuse disposal site. No funds were withheld.

**Cemetery grant**

| | | |
| --- | --- | --- |
| Balance unspent at beginning of year | - | 68,692 |
| Current-year receipts | - | - |
| Conditions met - transferred to revenue | - | (68,692) |
| | **-** | **-** |

This grant is for the feasibility study and acquisition of the land for the cemetery. No funds were withheld.

**Integrated development plan grant - capital**

| | | |
| --- | --- | --- |
| Balance unspent at beginning of year | - | 752 |
| Current-year receipts | - | - |
| Conditions met - transferred to revenue | - | (752) |
| | **-** | **-** |

This grant was used for community participation during development of IDP document. No funds were withheld.

**Small town rehabilitation grant**

| | | |
| --- | --- | --- |
| Balance unspent at beginning of year | 9,058,083 | 2,788,367 |
| Current-year receipts | 5,000,000 | 10,900,000 |
| Conditions met - transferred to revenue | (22,480,277) | (4,630,284) |
| **Conditions met - see receivables from non-exchange (see note 25)** | **(8,422,194)** | **9,058,083** |

This grant is for the rehabilitation of Okhahlamba municipal area. The second tranche payment was received in August 2014. No funds were withheld.

**Pound grant**

| | | |
| --- | --- | --- |
| Balance unspent at beginning of year | 143,755 | 1,000,000 |
| Current-year receipts | - | - |
| Conditions met - transferred to revenue | (142,384) | (856,245) |
| **Conditions still to be met - remain liabilities (see note 8)** | **1,371** | **143,755** |

This grant is for the creation and running of a pound. No funds were withheld.

## Notes to the Unaudited Financial Statements

| Figures in Rand | 30 June 2014 | 30 June 2013 |
|---|---|---|

### 20. Government grants (continued)

**Disaster relief grant**

| | | |
|---|---|---|
| Balance unspent at beginning of year | 1,860,800 | - |
| Current-year receipts | - | 1,860,800 |
| Conditions met - transferred to revenue | (1,802,967) | - |
| **Conditions still to be met - remain liabilities (see note 8)** | **57,833** | **1,860,800** |

This grant is for repairing bridges and building temporary by-passes and causeways. No funds were withheld.

**Department of sports and recreation grant**

| | | |
|---|---|---|
| Balance unspent at beginning of year | 150,000 | - |
| Current-year receipts | 150,000 | 150,000 |
| Conditions met - transferred to revenue | (131,193) | - |
| **Conditions still to be met - remain liabilities (see note 8)** | **168,807** | **150,000** |

This grant is to facilitate sport and recreation participation and empowerment within schools , clubs and hubs in partnership with relevant stakeholders. No funds were withheld.

**NER - electrification of households**

| | | |
|---|---|---|
| Balance unspent at beginning of year | 3,571,301 | 7,263,443 |
| Current-year receipts | - | - |
| Conditions met - transferred to revenue | - | (3,692,142) |
| Adjustments- funds withheld | (3,571,301) | - |
| | **-** | **3,571,301** |

This grant is for the electrification of households. The funds were withheld by National Treasury. The project is on going and is being funded by the municipality.

**Housing projects**

| | | |
|---|---|---|
| Balance unspent at beginning of year | 10,136,551 | 10,136,551 |

Conditions still to be met - remain liabilities (see note 8)

The grant is for the construction of housing. No funds were withheld. The Housing Projects grant revenue is currently part of the forensic investigation, which is ongoing, thus these funds cannot be utilised. The projects identified for funding have already been paid for by the Department of Human Settlements.

**Local Government SETA**

| | | |
|---|---|---|
| Balance unspent at beginning of year | - | - |
| Current-year receipts | 294,300 | - |
| Conditions met - transferred to revenue | - | - |
| | **294,300** | **-** |

Conditions still to be met - remain liabilities (see note 8).

This grant is provided for the work integrated learning programme in implementing the National Skills Development Strategy for the provision of experiential training to further education and training graduates. No funds were withheld.

| Figures in Rand | 30 June 2014 | 30 June 2013 |
| --- | --- | --- |

## 20. Government grants (continued)

**Expanded public works programme**

| | | |
| --- | --- | --- |
| Current-year receipts | 1,000,000 | - |
| Conditions met - transferred to revenue | (1,000,000) | - |
| | - | - |

Conditions still to be met - remain liabilities (see note 8).

This grants is for the salaries of the contractors used for the Extended Public Works Programme. No funds were withheld.

## Notes to the Unaudited Financial Statements

| Figures in Rand | 30 June 2014 | 30 June 2013 |
|---|---|---|

### 21. General expenses

| | | |
|---|---|---|
| Audit committee | 251,340 | 138,392 |
| Advertising | 520,787 | 438,523 |
| Arts and culture | 64,390 | 87,122 |
| Small tools | 86,056 | 78,755 |
| Auditors remuneration | 1,029,714 | 980,277 |
| Bank charges | 67,463 | 80,068 |
| Communications and public relations | 38,175 | 9,368 |
| Community outreach | 282,488 | 242,670 |
| Conferences and seminars | 55,570 | 1,840 |
| Consulting and professional fees | 7,145,032 | 3,696,364 |
| Consumables/ materials | 1,447,740 | 714,412 |
| Contracts fees | - | 49,642 |
| Co-operatives | 2,857,409 | 10,556 |
| Disaster and emergencies | 108,257 | 18,772 |
| Electricity and water | 1,031,830 | 879,633 |
| Exhibitions | - | 87,576 |
| Free electricity | 1,134,154 | 654,605 |
| Fuel and oil | 2,690,152 | 1,602,112 |
| Awareness initiatives | 204,565 | 39,718 |
| Grant operating expenditure | 3,186,970 | 4,890,745 |
| Indigent support | 8,811 | 1,500 |
| Insurance | 488,656 | 224,043 |
| IT expenses | 417,710 | 87,314 |
| Job creation | 992,708 | 1,001,985 |
| Legal fees | 197,343 | 120,998 |
| Marketing | 187,823 | 50,762 |
| Medical expenses | 289 | 13,000 |
| Pauper burials | 92,678 | 63,593 |
| Penalty waiver | - | 296,188 |
| Performance management system | - | 19,395 |
| Postage and courier | 68,502 | 58,557 |
| Printing and stationery | 251,225 | 426,014 |
| Promotion | - | 3,480 |
| Rental | 821,336 | 2,121,853 |
| Royalties and license fees | 1,132,092 | 331,574 |
| Saftey/security | 1,171,912 | 1,444,682 |
| Scholar patrol | 79,600 | 80,000 |
| Sports promotions | 318,587 | 88,597 |
| Billing charges | 19,865 | - |
| Staff welfare | 90,792 | 87,225 |
| Strategic planning | 621,614 | 267,211 |
| Support physically challenged | - | 42,075 |
| Telephone and fax | 1,538,440 | 1,174,448 |
| Roadmarkings | 22,449 | 10,846 |
| Training | 1,214,648 | 551,067 |
| Valuation expenses | 287,106 | 1,362,478 |
| Ward committees | 647,870 | 682,315 |
| Youth | 344,296 | 123,985 |
| Subscriptions and membership fees | 1,500 | - |
| Local Economic Development | 11,293 | - |
| Public participation | 438,650 | - |
| Contracted services: electrification | 3,312,160 | - |
| Library awareness | 48,455 | - |
| | **37,030,502** | **25,436,335** |

## Notes to the Unaudited Financial Statements

| Figures in Rand | 30 June 2014 | 30 June 2013 |
|---|---|---|

### 22. Employee related costs

| | | |
|---|---|---|
| Basic | 23,288,357 | 18,431,661 |
| Bonus | 1,807,282 | 1,209,844 |
| Medical aid - company contributions | 829,018 | 651,138 |
| UIF | 215,376 | 172,140 |
| SDL | 288,110 | 228,118 |
| Leave pay provision charge | 1,504,338 | 408,064 |
| Post-employment benefits - Pension | 2,700,868 | 1,702,269 |
| Housing,standby,uniform,subsistence and other allowances | 1,973,176 | 1,687,654 |
| Overtime payments | 1,149,521 | 924,282 |
| Transport allowance | 1,206,000 | 1,094,728 |
| Protective clothing | 129,040 | 94,252 |
| Bargaining Council | 11,170 | 7,974 |
| Long-service awards | 103,354 | 120,847 |
| Provident fund | 1,085,651 | 979,362 |
| | **36,291,261** | **27,712,333** |

**Remuneration of Municipal Manager**

| | | |
|---|---|---|
| Annual Remuneration | 733,093 | 684,102 |
| Travel Allowance | 132,000 | 113,000 |
| Subsistence & Travel Reimbursement | 17,415 | 13,244 |
| Performance Bonus | 119,527 | - |
| | **1,002,035** | **810,346** |

**Remuneration of Chief Finance Officer**

| | | |
|---|---|---|
| Annual Remuneration | 472,554 | 420,641 |
| Travel Allowance | 182,400 | 158,500 |
| Housing and other allowances | 84,623 | 102,525 |
| Subsistence & Travel Reimbursement | 13,130 | 14,591 |
| Performance Bonus | 65,711 | - |
| | **818,418** | **696,257** |

**Remuneration of Director of Social Services**

| | | |
|---|---|---|
| Annual Remuneration | 511,591 | 164,533 |
| Travel Allowance | 108,000 | 51,000 |
| Housing and other allowances | 120,000 | 50,000 |
| Leave Paid | - | 5,468 |
| | **739,591** | **271,001** |

**Remuneration of Director of Technical Services**

| | | |
|---|---|---|
| Annual Remuneration | 438,996 | 396,766 |
| Travel Allowance | 156,000 | 120,000 |
| Housing allowance | 146,017 | 110,000 |
| Perfromance Bonus | 60,235 | - |
| | **801,248** | **626,766** |

**Remuneration of Director of Corporate Services**

| | | |
|---|---|---|
| Annual Remuneration | - | - |

The Director of Corporate Services has been a vacant position.

## Notes to the Unaudited Financial Statements

| Figures in Rand | 30 June 2014 | 30 June 2013 |
| --- | --- | --- |

### 23. Remuneration of councillors

| | | |
| --- | --- | --- |
| Mayor | 663,759 | 633,985 |
| Deputy Mayor | 519,895 | 514,952 |
| Executive Committee Members | 1,137,654 | 806,830 |
| Speaker | 519,895 | 499,700 |
| Councillors | 4,444,380 | 4,280,895 |
| UIF & SDL | 52,083 | 46,609 |
| | **7,337,666** | **6,782,971** |

**Mayor**

| | | |
| --- | --- | --- |
| Annual remuneration | 489,410 | 459,954 |
| Travel Allowance | 155,234 | 153,318 |
| Cellphone allowance | 19,115 | 20,713 |
| | **663,759** | **633,985** |

**Deputy Mayor**

| | | |
| --- | --- | --- |
| Annual remuneration | 377,535 | 361,979 |
| Travel Allowance | 123,245 | 122,654 |
| Cellphone Allowance | 19,115 | 18,878 |
| Subsistence & Travel Reimbursement | - | 11,441 |
| | **519,895** | **514,952** |

**Speaker**

| | | |
| --- | --- | --- |
| Annual remuneration | 377,535 | 358,168 |
| Travel Allowance | 123,245 | 122,654 |
| Cellphone allowance | 19,115 | 18,878 |
| | **519,895** | **499,700** |

**Executive committee**

| | | |
| --- | --- | --- |
| Annual Remuneration | 817,062 | 567,227 |
| Travel Allowance | 251,868 | 189,731 |
| Cellphone Allowance | 55,153 | 35,328 |
| Subsistence & Travel Reimbursement | 13,571 | 14,544 |
| | **1,137,654** | **806,830** |

**Councillors**

| | | |
| --- | --- | --- |
| Annual Remuneration | 3,180,248 | 3,014,763 |
| Travel Allowance | 971,967 | 1,008,390 |
| Cellphone Allowance | 288,015 | 255,276 |
| Subsistence & Travel Reimbursement | 4,150 | 2,466 |
| | **4,444,380** | **4,280,895** |

| | | |
| --- | --- | --- |
| UIF & SDL | 52,083 | 46,609 |

| Figures in Rand | 30 June 2014 | 30 June 2013 |
|---|---|---|

### 23. Remuneration of councillors (continued)

**In-kind benefits**

The Mayor, Deputy Mayor, and Speaker are full-time councillors and each is provided with a fully furnished office in the Municipal buildings.

The Mayor has two full-time bodyguards, the use of a Council owned vehicle and secretarial support.

The Deputy Mayor has two full-time bodyguards, the use of a Council owned vehicle and secretarial support.

The Speaker has one full-time bodyguard and the use of a Council owned vehicle.

Each Councillor is allocated a laptop and a 3G card.

### 24. Debt impairment

| | | |
|---|---|---|
| Traffic fines debt impairment | 421,390 | - |
| Consumers debt impairment | 4,916,775 | 3,437,307 |
| | **5,338,165** | **3,437,307** |

### 25. Receivables from non-exchange transactions

| | | |
|---|---|---|
| Fines | 43,880 | - |
| Government grants and subsidies - Small Town Rehabilitation Grant | 8,422,194 | - |
| | **8,466,074** | - |

**Reconciliation of receivables from non-exchange transactions**

| | | |
|---|---|---|
| Traffic Fines Receivable | 465,270 | - |
| Debt impairment - traffic fines | (421,390) | - |
| | **43,880** | - |

The Municipality operates a manual traffic fine billing system. Monies collected by the Magistrates Court are transferred to the Municipality's bank account. The effect of the implementation of IGRAP1 is prospective.

### 26. Service charges

| | | |
|---|---|---|
| Refuse Removal | 353,995 | 354,502 |

### 27. Interest received

| | | |
|---|---|---|
| Interest from investments | 2,803,626 | 2,064,949 |
| Interest from current account | 725,737 | 470,489 |
| | **3,529,363** | **2,535,438** |

### 28. Depreciation and amortisation

| | | |
|---|---|---|
| Property, plant and equipment | 9,468,353 | 3,973,349 |
| Intangible assets | 126,074 | 28,146 |
| | **9,594,427** | **4,001,495** |

Refer to reconciliation of carrying amounts in note 11 and 12 for further details. Depreciation and amortisation is calculated over the useful life of the asset and reflects the realisation of that asset through continued use.

## Notes to the Unaudited Financial Statements

| Figures in Rand | 30 June 2014 | 30 June 2013 |
|---|---|---|

### 29. Finance costs

| | | |
|---|---|---|
| Finance leases | 1,116,523 | 416,517 |

### 30. Auditors' remuneration

| | | |
|---|---|---|
| Fees | 1,029,714 | 1,118,669 |

### 31. Gross cash generated from operations

| | | |
|---|---|---|
| Surplus | 53,648,924 | 50,892,221 |
| **Adjustments for:** | | |
| Depreciation and amortisation | 9,594,427 | 4,001,495 |
| (Gain) / Loss on sale of assets and liabilities | (697,150) | 1,240,757 |
| Impairment of assets | 211,867 | 1,115,168 |
| Deemed cost of assets | (110,385) | - |
| Reversal of operating lease | (1,147,557) | - |
| Interest received | (3,529,363) | (2,535,437) |
| Finance Costs | 1,116,523 | 416,517 |
| Donations Received | (88,731) | (62,052) |
| Prior year adjustment | (275,801) | 7,026 |
| Increase in provision for debt impairment | 5,338,165 | 2,900,633 |
| Contribution to retirement benefit obligation | 243,766 | 1,163,405 |
| Contribution to landfill provision | 986,026 | 279,788 |
| **Changes in working capital:** | | |
| Other receivables from exchange transactions | (2,935,509) | (94,811) |
| Other receivables from non-exchange transactions | (8,466,074) | - |
| Consumer debtors | (4,928,080) | (4,432,719) |
| Trade and other payables from exchange transactions | 8,827,721 | 4,658,625 |
| VAT | (356,665) | (2,049,374) |
| Unspent conditional grants and receipts | (15,490,753) | (9,133,101) |
| Movements in operating lease assets and accruals | - | 299,319 |
| **Gross cash generated from operations** | **41,941,351** | **48,667,460** |

| Figures in Rand | 30 June 2014 | 30 June 2013 |
| --- | --- | --- |

### 32. Capital commitments

**Authorised capital expenditure**

| | | |
| --- | --- | --- |
| **Already contracted for** | | |
| • Property, plant and equipment | 3,239,320 | 11,942,174 |
| **Not yet contracted for and authorised** | | |
| • Property, plant and equipment | 912,387 | 29,329,038 |

### 33. Contingent assets

No contingent assets exist for the period ended 30 June 2014 (2013 R:nil )

### 34. Contingent liabilities

| | | |
| --- | --- | --- |
| The Municipality defended a claim made by the Natal Joint Municipal Pension Fund.An amount of R123 776, was subsequently paid to NJMPF in the 2013/2014 financial year. | - | 135,341 |
| The Municipality is defending a case made by Dumezweni Accountants CC in respect of debt/liquidated demand, which arose in November 2011. The amount of the claim is R 104370. | 104,370 | 100,000 |
| The Municipality is defending a claim against SS Hlongwane being for the removal of fencing around the Plaintiff's farm, which arose on February 2013. The amount of the claim is R100 000. | 100,000 | 100,000 |
| The Municipality is defending a claim against Farrell Inc. Attorneys in respect of legal fees which arose in May 2014. The amount of the claim is R 45019.53 plus interest up to date of final payment. | 45,020 | - |
| | **249,390** | **335,341** |

### 35. Unauthorised expenditure

**Reconciliation of unauthorised expenditure**

| | | |
| --- | --- | --- |
| Opening balance | - | 370,636 |
| Approved/ condoned by Council | - | (370,636) |
| | - | - |

**Incidents - 2013/ 14**
There was no unauthorised expenditure incurred for the 2013/2014 period.

**Incidents - 2012/13**
Unauthorised expenditure in the amount of R370 636 relating to the 2012/2013 period was approved by Council on 27 June 2013.

### 36. Fruitless and wasteful expenditure

**Reconciliation of fruitless and wasteful expenditure**

| | | |
| --- | --- | --- |
| Opening balance | - | 30,290 |
| Interest and penalties | 7,588 | - |
| Organ of state | - | 7,829 |
| Approved/condoned by Council | (7,588) | (38,119) |
| | - | - |

| Figures in Rand | 30 June 2014 | 30 June 2013 |
| --- | --- | --- |

### 36. Fruitless and wasteful expenditure (continued)

**Incidents - 2013/ 14**
**Interest and penalties**
The fruitless and wasteful expenditure in the amount of R 7 588 related to interest charged by Eksom and Telkom for late payments.

**Incidents - 2012/13**
**Organ of state**
This relates to interest paid as a result of the Municipality paying suppliers late.

Fruitless and wasteful expenditure was condoned by Council on 27 June 2013.

### 37. Irregular expenditure

| | | |
| --- | --- | --- |
| Opening balance | 13,821,849 | 19,662,921 |
| Contracts | 2,501,774 | 2,787,576 |
| Tender | - | 1,647,007 |
| Quotation | 225,586 | 140,348 |
| In the service of the state | 3,413,274 | 1,284,528 |
| Approved/condoned | (6,140,634) | (11,700,531) |
| | **13,821,849** | **13,821,849** |

**Incident - 2013/14**
**Openingbalance**
This relates to forensic invetigations related to prior years 2007/2008, 2008/2009 and 2009/2010. The reports that have been concluded have been reported to the South African Police Services and included in irregular expenditure. The amounts are yet to be condoned depending on the outcome of the court cases.

**Contracts**
This relates to expenditure incurred due to the inappropriate extension of a contract, relating to the rental of hygiene services as a sole supplier and relating to the performance of VAT services etc. This amount has been condoned by Council.

**Quotation**
This relates to expenditure that was incurred without obtaining three quotations. The expenditure related to the placing of advertisements in local newspapers. The amounts have been condoned by Council.

**In the service of the state**
This relates to payments that were made to suppliers who are in the service of the state. The municipality utilised section 32 of the supply chain management regulations from Nquthu Municipality to use Mavava Trading for the supply of a non conventional stabilisation product for roads. The Director of Mavava Trading is Mr Obed Mlaba who is an ambassador in the UK. This amount has been condoned by Council.

**Incidents - 2012/13**
**Contracts**
This relates to expenditure in the amount of R2 787 576 relating to the inappropriate extension of contracts (e.g. of such contracts include: rental of office building, Security services and advertising).

**Quotation**
This relates to expenditure that was incurred without obtaining three quotations.

**In the service of the state**
This relates to payments that were made to suppliers who are in the service of the state.

**Tender**
This relates to expenditure that was incurred where the contract was extended without following the correct process and expenditure incurred where SCM processes were not followed.

# Notes to the Unaudited Financial Statements

| Figures in Rand | 30 June 2014 | 30 June 2013 |
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## 37. Irregular expenditure (continued)

### Action

Irregular expenditure in the amount of R8 033 294 was approved by Council on 27 June 2013, except for the forensic investigation brought forward from the prior year in the amount of R13 821 849. Until the investigation has been completed by the South African Police Service, Council is not able to condone the closing balance.

### Investigations in progress

The forensic investigation regarding the missing documents in respect of the 2007/2008, 2008/2009 and 2009/2010 financial periods continues. The reports that have been concluded have been reported to the South African Police Services and included in irregular expenditure.
The municipality is also investigating an alleged misappropriation of receipts to an estimated amount of R14 811 and an alleged misappropriation relating to payments of R19 570. Internal disciplinary hearings have been held in both cases.

## 38. Additional disclosure in terms of Municipal Finance Management Act

### Audit fees

| | | |
|---|---|---|
| Opening balance | 49,844 | 5,886 |
| Current year subscription / fee | 1,022,020 | 980,277 |
| Amount paid - current year | (1,067,155) | (936,319) |
| Amount paid - previous years | - | - |
| | **4,709** | **49,844** |

### PAYE and UIF

| | | |
|---|---|---|
| Opening balance | - | - |
| Current year subscription / fee | 5,232,188 | 3,719,844 |
| Amount paid - current year | (5,232,188) | (3,719,844) |
| Amount paid - previous years | - | - |
| | - | - |

### Pension and Medical Aid Deductions

| | | |
|---|---|---|
| Current year subscription / fee | 4,491,217 | 2,353,407 |
| Amount paid - current year | (4,491,217) | (2,353,407) |
| | - | - |

### VAT

| | | |
|---|---|---|
| | - | - |
| VAT received | 12,366,981 | 5,716,644 |
| | **12,366,981** | **5,716,644** |

VAT output payables and VAT input receivables are shown in note 10.
All VAT returns have been submitted by the due date throughout the period.

### Councillors' arrear consumer accounts

No Councillor's were in arrears as at 30 June 2014 (2013: Nil)

| Figures in Rand | 30 June 2014 | 30 June 2013 |
| --- | --- | --- |

**38. Additional disclosure in terms of Municipal Finance Management Act (continued)**

**Supply chain management regulations**

| | | |
| --- | --- | --- |
| Quotations: In terms of regulation 36 of the Municipal Supply Chain Management Regulations, any deviations from the Supply Chain Management Policy has been approved/condoned by the Municipal Manager and noted by the Council. These deviations refer to instances where less than three quotations were received for amounts less than R30 000 (totalling R372 666) and quotations above R30 000 (totalling R1 322 733). | 1,695,399 | 15,512,330 |
| Bids: In terms of regulation 36 of the Municipal Supply Chain Management Regulations, any deviations from the Supply Chain Management Policy has been approved/condoned by the Municipal Manager and noted by the Council. Bids to the value of R5 512 269 were not advertised for 30 days and the proper procurement process was not followed for an emergency turnkey project for R1 802 967. | 7,315,236 | - |
| | **9,010,635** | **15,512,330** |

| | | |
| --- | --- | --- |
| In terms of regulation 45 of the Municipal Supply Chain Management Regulations, the notes to the annual financial statements of a municipality must disclose particulars of any award of more than R2000 to a person who is a spouse, child or parent of a person in the service of the state, or has been in the service of the state in the previous 12 months. The municipality is currently limited to the issuing of declaration forms (MBD4) and does not have a system/national database to identify such suppliers. An award was made to Megazone 159cc which is owned by a spouse of a person in the service of the state. Name of the person in the service of the state. The person in service of the state is noted to be Robyn Elizabeth Mare-Smit who is an enrolled nurse - public health. | - | 6,065 |

## Notes to the Unaudited Financial Statements

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### 39. Financial risk management

**Financial Risk Management Objectives**

Due to the largely non-trading nature of the activities and the way in which they are financed, municipalities are not exposed to the degree of financial risk faced by business entities.

The municipality's finance function monitors and manages the financial risks relating to the operations of the municipality. These risks include credit risk, liquidity risk, market risk relating to interest rate risk.

**Maximum credit risk exposure**
Credit risk consists mainly of cash deposits, cash equivalents and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.
Except as detailed below, the carrying amount of financial assets recorded in the Annual Financial Statements, which is net of impairment losses, represents the municipality's maximum exposure to credit risk without taking account of the value of any collateral obtained:
The maximum credit risk exposure in respect of the relevant financial instruments is as follows:

| | | |
| --- | --- | --- |
| Cash and cash equivalents | 42,798,188 | 78,828,900 |
| Trade and other receivables | 16,535,187 | 8,671,598 |
| **Maximum credit exposure** | **59,333,375** | **87,500,498** |

**Liquidity risk**
The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities. Unspent Grants are cash backed. Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored.

The table below analyses the municipality's financial liabilities into amounts due within the 12 months after financial year end. The amounts disclosed in the table are the contractual undiscounted cash flows.

| | | |
| --- | --- | --- |
| Other: Lease Obligations | 3,250,706 | 3,789,006 |
| Trade and other payables | 10,177,429 | 5,431,562 |
| **Maximum liquidity exposure** | **13,428,135** | **9,220,568** |

**Interest rate risk**
As the municipality has no significant interest-bearing assets, the municipality's income and operating cash flows are substantially independent of changes in market interest rates.
At year end, financial instruments exposed to interest rate risk were as follows:

| | | |
| --- | --- | --- |
| Cash and cash equivalents | 42,798,188 | 78,828,900 |

**Other price risk**
Due to legislative restrictions, the municipality does not trade these investments.

### 40. Related parties

There are no related party transactions for the current and prior year.

### 41. Statement of Comparison of Budget and Actual amount comments

**Revenue**

**39.1 Rental of Facilities:** The Municipality has experience challenges with regards to administering the terms of the service level agreements relating to the rental of facilities. This has impacted the revenue generated from rental of facilities.

**39.2 Agency Services** : The variation is due to agency fees not received from the Hotel's in the District.

**39.3 Subsidies:** The Municipality received subsidies from the Department of Arts and Culture and the Department of Cooperative Governance and Traditional Affairs not provided for during the budgeting process.

**39.4 Other revenue**: Included is service charges of which the Municipality has fewer generated less sundry / other revenue than originally expected. The Municipality did not budget for revenues to be generated from rendering tourism, building plans services, garden refuse collection, burial fees etc. There was an over collection of service charges during period. The donations received were not expected and were thus not budgeted for.

**39.5 Interest Received:** The Municipality has had favourable interest rates for its short term deposits, which has allowed the Municipality to generate more interest income than anticipated. In addition to this the Municipality has received interest from the operating account.

**39.6 Property Rates:** The Municipality bills property rates on a monthly basis, the expected property rates to be billed for the 2013/14 financial year exceeded the budget which is as a result of the adjustments made to the supplementary valuation roll.

**39.7 Penalties:** The actual penalties charged are as a result of property holders not paying rates timeously and cannot be accurately budgeted for.

**39.8 Government Grants:** The Municipality receives grants in line with the conditions applicable to the grant funding allocated. During the period the Municipality has received funding in line in the the Division or Revenue Act and as communicated by National Treasury and can be budgeted for. Some of the grants received are not gazetted and difficult to budget for.

**39.9 Fines**: The large actual amount is as a result of the implementation of IGRAP1 requiring the Municipality to account for traffic fines issued and accrued. The IGRAP1 is effective from 1 July 2013 and is applied prospectively.

**Expenditure**

**39.10 Personnel and remuneration of councillors:** Leave accrual figures were not included in the budget for personnel costs. Not all councillors contribute towards a pension fund accounting for the difference in the budget .

**39.11 Depreciation and amortisation:** The additional purchase of leases amounting to R10 million resulted in additional depreciation charges.

**39.12 Finance costs:** The Municipality acquired R 10 million worth of new plant equipment by way of finance lease in the year. This has resulted in the increase of the actual finance lease costs as compared to the the budget.

**39.13 Repairs and maintenance:** The anticipated expenses for repairs and maintenance did not exceed the budgeted amount as a result of correctly implementing the asset management policy.

**39.14 General expenses:** The realisation of the straight lining of operation leases for the Municipal building which was purchased during the year and the contracted services for electrification resulted in a small variation on the actual general expenses. A vigorous campaign to clean up the consumer debtors book after the new valuation roll resulted in an increase in payments and a reduction of the bad debt resulting in a lower than expected impairment of the bad debt. The impairment of traffic fines as a result of the implementation of IGRAP1 resulted in a lower than anticipated impairment that was already budgeted for. The Municipality assesses the landfill rehabilitation provision annually at year end making it difficult to accurately determine the current unwinding discounting amount. The Municipality obtains an actuarial report on the post retirement benefits annually at year end making it difficult to accurately determine the current contribution to the liability.

**39.15 Asset adjustments:** The overall adjustment of R504 707 was as a result of the loss on disposal of assets, impairment additions for the current year and deemed cost calculations for the reversal of the operating lease for the building being purchased and the fair value of newly identified assets in note11.

## 42. Events after the reporting date

No events after the reporting period have occured.